★ CAN EARNINGS SUPPORT MARKET? ★

The MAGAZINE of WALL STREET
and BUSINESS ANALYST

NOVEMBER 4, 1961 85 CENTS

JUSTICE DEPARTMENT THROTTLING OUR ECONOMIC GROWTH?
By ROBERT B. SHAW

★

A New and Timely Reappraisal of
ALL PHASES of the CONSTRUCTION INDUSTRY
— Looking to 1962
By EDWARD A. SPRAGUE

★

Part I . . .
WHAT THIRD QUARTER EARNINGS REPORTS REVEAL
By WARD GATES

★

Special Investment Features . . .

BANK STOCKS LOOK GOOD FOR 1962
By PAUL J. MAYNARD

★

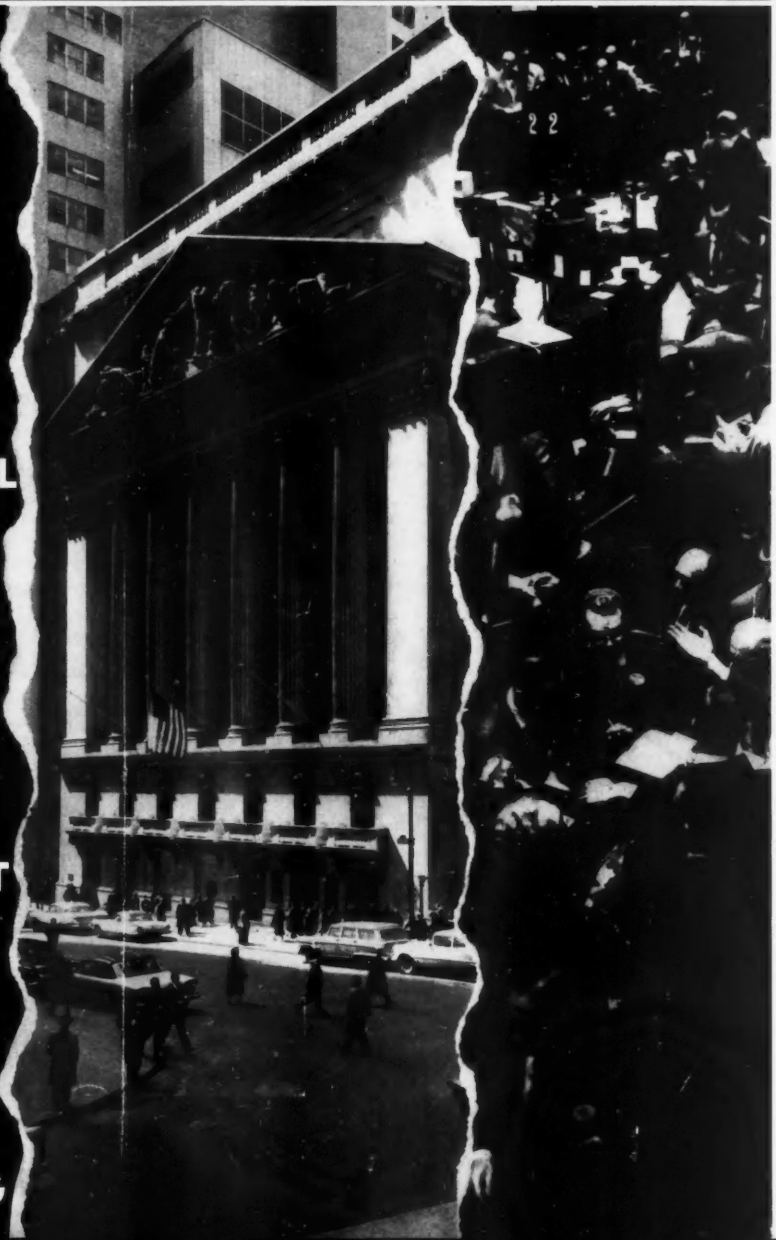
OUTLOOK for FINANCE INDUSTRY UNDER TIGHTENING CREDIT
And the position of the individual companies in the three categories
By JONATHAN PIERCE

★

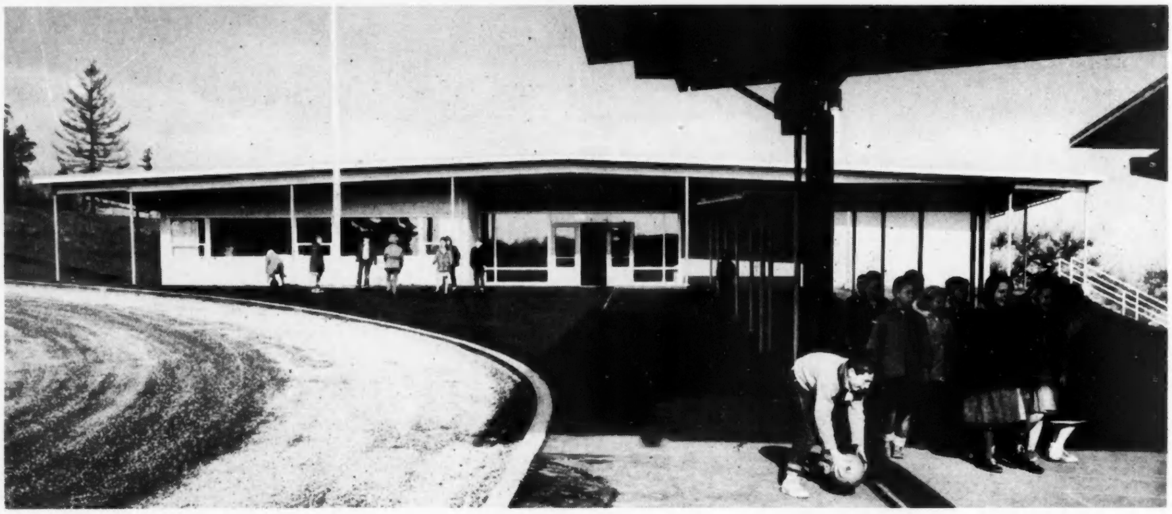
TEXTILES GET "BREAK" from GOVERNMENT
By JAMES A. NEWMAN

★

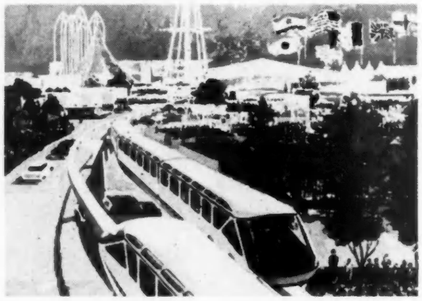
BLACK AFRICA AND AMERICAN FINANCING
By SANFORD GRIFFITH



MORE GROWTH IN PUGET POWER COUNTRY



NEW TOTAL-ELECTRIC SCHOOLS REFLECT PREFERENCE FOR ELECTRICITY. 60% of Washington State's population growth in the past 10 years has occurred in Puget's service area. In the past two years alone, 39 new schools being erected to serve this growth have gone "Total Electric" with electric heating, electric water heating and electric cooking — more evidence that people in Puget Country prefer electricity for all their jobs.



VISIT THE SEATTLE WORLD'S FAIR IN 1962. Next year, from April 21 to October 21, this great exposition will give millions of visitors a preview of life in the 21st Century. Thirty-five nations will be represented. You'll find the exciting hydroelectric exhibit right next to the Space Needle and the Monorail terminal. We hope you'll "Come to the Fair" and visit nearby Puget Country.

PUGET HOMEOWNERS USE 2½ TIMES MORE ELECTRICITY THAN THE NATIONAL AVERAGE. 75.4% of Puget homes use both electric cooking and electric water heating. More than 18,000 Puget homeowners now use electric heat, and new electric heating customers are being added at the rate of more than 3,000 a year, many of them through conversion from gas or oil. Puget stands second in the nation in rate of residential usage increase.

OWNERSHIP OF APPLIANCES IN PUGET COUNTRY FAR ABOVE NATIONAL AVERAGE

Here are a few typical examples of appliance ownership as reported in a recent national survey (in Electric Light and Power for August 1, 1961):

Electric Appliance	National Average	Puget Customers
RANGES	30.6%	87.0%
WATER HEATERS	17.4	84.0
DRYERS	13.6	45.0
FREEZERS	13.6	33.0

Puget residential customers own an average of 15.1 electric appliances per family . . . far above national average for electric appliance ownership.

PUGET POWER

PUGET SOUND POWER & LIGHT COMPANY

Serving 830,000 people in 270 communities of Western Washington • **Executive Offices:** 1400 Washington Building, Seattle 1

THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

VOLUME 109 NO. 4

The Ticker Publishing Company is affiliated by common ownership with the Investment Management Service and with no other organization. It publishes The Magazine of Wall Street and Business Analyst, issued bi-weekly, and The Investment and Business Forecast, issued weekly. Neither the Ticker Publishing Company nor any affiliated service or publication has anything for sale but information and advice. No securities or funds are handled under any circumstances for any client or subscriber.

Member of Audit Bureau of Circulation

Contents

Our Cover:

Our cover photos depict the sedate exterior of the New York Stock Exchange and the hectic activity on the trading floor.

Copyright 1961, by the Ticker Publishing Co., Inc., 120 Wall Street, New York 5, N. Y. C. G. Wyckoff, President and Treasurer; Arthur G. Gaines, Secretary. The information herein is obtained from reliable sources and while not guaranteed we believe to be accurate. Single copies on newsstands in U. S. and Canada: 85 cents. Place a standing order with your newsdealer and he will secure copies regularly. Entered as second-class matter January 30, 1915, at P. O. New York, Act of March 3, 1879. Published every other Saturday.

SUBSCRIPTION PRICE — $20.00 a year in advance in the United States and its possessions. Pan American, Canadian and Foreign Postage, $3.00 additional per year. Please send International Money Order or United States Currency.

TO CHANGE ADDRESS — Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to your new address.

EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg., London E. C. 4, England.

Cable Address — Tickerpub

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*

The Trend of Events

CRAZY LIKE A FOX . . . Mr. Khrushchev is behaving like a madman, and giving a very good performance. But this simulated lunacy is merely a pose designed to mask his true purpose, which is to divide the West, and unbalance the striking power of the United States by destroying NATO and our bases in the various countries. And his refusal to halt the high megaton nuclear explosions is basic to this plan.

The opening gun in his all-out campaign was fired at the time of the Summit Meeting in Paris, where he violently attacked President Eisenhower in an attempt to build up the U-2 Spy Incident beyond all proportions, for Russia has been notoriously guilty of such practices throughout her existence.

So far, he has failed in his efforts to break up the Western alliances and, although he succeeded in arousing cries of "throw the Yankee bases out" at various times, his success did not go far enough to accomplish his purpose. And NATO has continued to be a-bone-in-his-throat which he cannot dislodge.

Now, in frustration, he is counting on the fall-out from his nuclear explosions to arouse the people in the various countries to such a point of fear that they will demand their governments cancel defense agreements with the United States—dismantle the bases—and assume a neutral position in the East-West conflict.

This was clearly shown to be his purpose when, in response to the protest from Premier Hayata Ikeda on the life and death danger of atomic fall-out over Japan, he said that the real threat to the Japanese people was the alliance with the United States and the maintenance of American bases, which he decared were constructed for use against the Soviet Union, Communist China and North Korea, indicating that Russia is actually in an all-out war with the United States now—a war based on a strategy of terror designed to give her what she wants—"or else—the "or else" being at the expense of the lives of the men, women and children of Japan and the other countries that stand in her way.

This may be a revolutionary departure in warfare, with air pollution by stron-

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and businessmen. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907 — *"Our 54th Year of Service"* — 1961

tium 90 a new weapon more frightful than conventional ones, because its immediate impact as well as its effect on future generations are not yet known.

Already, a great many countries, from Canada, Britain and Denmark to Ethiopia and India, have lodged complaints with the Soviet Union. And as a result we can expect pleas to the United States from every corner of the earth urging us to yield to Russian demands so that their lives and those of their children and grandchildren can be spared.

And wherever the masses are kept in ignorance of the true facts, we can be sure Khrushchev, by refusing to modify his program will be able to throw the responsibility for the fall-out on the United States and turn the people of the world against us, so that he can take over.

We must be sure he does not accomplish his purpose and recognition that we are actually at war with the Soviet Union is the first step in that direction.

Thus far we have failed to do so and act as though we seem to believe that what is going on is merely the give and take in a battle of wits. And now failure to make a definite decision on our own by calling on the U.N. to plead our cause and be tossed hither and thither by the divided judgement of our allies has only further lessened our stature and weakened our position, with the detonation of the 50 megaton bomb serving as an exclamation point of Khrushchev's contempt.

Have we lost the first decisive battle? It would seem so. For on this very day comes the announcement that our government has agreed that Americans entering the Communist sector will submit their passes for inspection by East German police. END

SANCTITY OF OIL AND MINERAL LAND CONTRACTS ENDANGERED IN SASKATCHEWAN

By W. E. GREENING

• According to a story in the Financial Post of Toronto for October 28th, 1961, the Government of the Western Canadian province of Saskatchewan has just passed a bill which affects adversely the position of many of the oil and gas exploration and leasehold companies in that region of Canada.

It provides for the forced renegotiation of contracts which farmers and other residents of that province owning oil lands made with these companies about ten years ago when the oil and gas

prospecting boom in Saskatchewan was in its first beginnings.

This bill reduces the terms of these leases from ninety-nine to ten years and also increases the acreage fee which is to be paid by the oil companies to lease companies and farmers when the oil is not being produced, from twenty-five to fifty cents an acre.

► This Bill 56, as it is called in Saskatchewan, has an interesting history. It dates back to the year 1959, when many of the local farmers there, feeling that they were not getting a satisfactory enough deal in this matter of royalties from the oil and gas companies, put strong pressure on the Provincial Legislature to set up a Provincial Mineral Rights Renegotiation Board, which was designed to force the oil companies to renegotiate many of these contracts, most of which had been made several years before.

► About 2,530 of these contracts have come before this Board to date. In some cases compromises were made between the companies and the farmers, but certain of the companies, including the Canadian Williston Company which holds leases on 700,000 acres of oil lands in the southern region of the province, refused to accept the terms set by the Board.

Therefore, in April of the present year, the present Socialist Co-operative Commonwealth Federation Administration in Saskatchewan put a bill through the Legislature to force them to do so.

► Under the Canadian constitutional set up, when a bill of this type passes a Provincial Legislature, it then goes to the Lieutenant-Governor of the province for his assent. This is usually a purely formal proceeding, since the Lieutenant-Governor, like the Governor-General of Canada in Ottawa, has purely ornamental functions and rarely, if ever, interferes in legislative proceedings.

However, in this case, to the vast surprise of many observers, the Lieutenant-Governor of Saskatchewan refused to approve this bill on the grounds that it was beyond the legislative powers of the Saskatchewan Government and not in the public interest, and referred it to John Deifenbaker, the Prime Minister of Canada, and the Federal Cabinet in Ottawa for consideration.

It is many years since an incident of this type has happened in Canada. Mr. Deifenbaker then decided that the bill was constitutional and had an Order-in-Council passed by the Federal Cabinet ratifying the action of the Saskatchewan Government in this matter.

Political Aspects of Mr. Deifenbaker's Decision

► Now, one must not jump at too hasty conclusions regarding the motivation of Mr. Deifenbaker, and infer that he thus revealed himself to be the enemy of private enterprise and the sanctity of contracts. Other political considerations came into play here which had nothing to do with the rights or wrongs of the case of the oil companies. Direct interference by the Federal Government in Canada in the legislative actions of the provinces there, is no more popular with the electorate there than is an infringement of states rights by the Federal Government in the United States. And there is also the fact that Saskatchewan is Mr. Deifenbaker's home province and that he is strongly sensitive to electoral opinion there.

► **During the session of the Saskatchewan Government which is now in progress, the Co-operative Commonwealth Federation Administration again passed this bill and proposes to apply it immediately, against the recalcitrant oil companies.**

There are reports that the Canadian Williston Company intends to continue its fight against this measure and that it may take the oil companies case to the Canadian Courts where it might be fought right through to the Supreme Courts of Canada in Ottawa—the highest Canadian legislative tribunal.

Sanctity of Contracts at Stake

► The Regina Leader Post, one of the most influential newspapers in this region of Canada, which is published in the capital of Saskatchewan, made some significant remarks about this bill in an editorial on October 19th 1961.

It attacked it as a very arbitrary piece of legislation—dangerous to the rights of private property. It remarked that if the oil companies began a legal fight against the Act and that the Supreme Courts of Canada approved it on the grounds that it was within the constitutional spheres of the Saskatchewan Government, that it might become necessary to make changes in the Canadian constitutional set up, so that the rights of property and the sanctity of contracts would receive more effective legal protection.

The present Co-operative Commonwealth Federation has been in office in Saskatchewan ever since 1944 and, in spite of its socialist principles, when the gas and oil prospecting boom began there around the year 1949, it did not try to hinder unduly the prospecting plans and activities of the large American and European-controlled gas and oil companies. This bill is the first sign of a change of attitude on the part of this Administration towards this question. During the past two or three years, the tempo of oil and gas prospecting in the province has notably slackened as compared with similar activity in the neighbouring province of Alberta, because of marketing difficulties and the failure to locate large new fields. If the Saskatchewan Government persists in acting in this manner, it is not likely that any large amount of new outside capital will be attracted to oil exploration in the province in the near future.

Can Earnings Support The Market?

With behavior of individual stocks highly mixed, over-all market movement is still restricted within a broad trading range. On average, the third-quarter profit reports show only a small year-to-year gain, despite the high level of business activity. There has been some lessening of confidence in the business outlook for the rest of the year and into 1962. Allowing also for serious foreign uncertainties, a conservative investment policy remains advisable at this time.

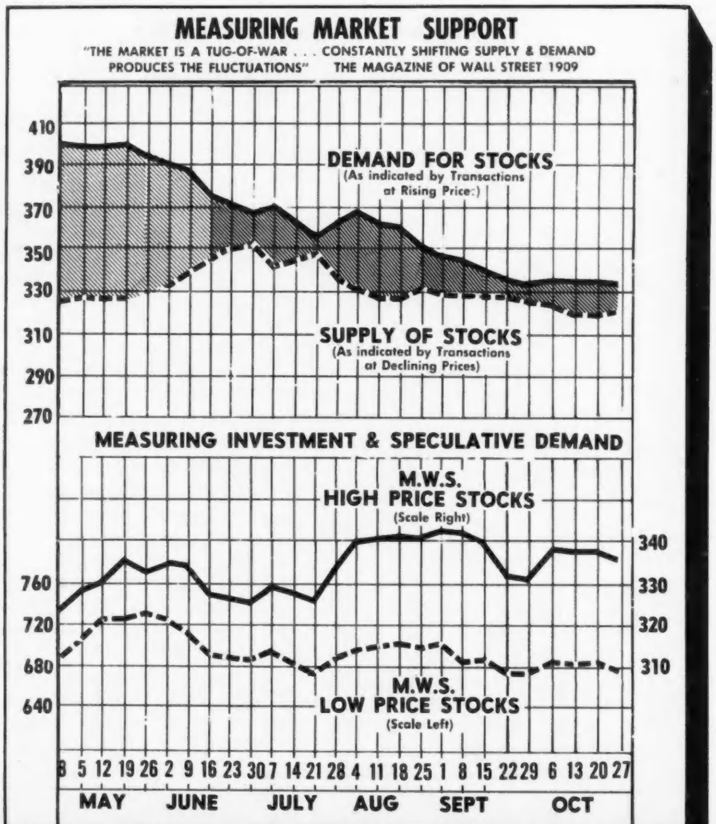
By A. T. MILLER

STRONG demand for stocks at present is confined to a minority of issues mainly in sections of the list with appeal for conservative investment, including utilities, several of the food groups, most of the retail issues, some tobaccos and the bank and insurance stocks. Most of the former "glamour" stocks are on the skids. Relatively few cyclical-type issues are performing well.

The speculative fever, which approached the stage of delirium last Spring, has receded further. One reason is no doubt the continuing "war of nerves" over Berlin. Another is that many people, including a number of industrial economists, now question whether there is as much of a business boom ahead as had been generally expected during the initial fast phase of revival from the recession low.

But there is another reason also—perhaps even the most significant one—for the more sober market mood. It is that most people reaching for a fast buck have either had their fingers burned in recent months or at best have found capital gains much harder to come by. In short, the market lacks a public vote of speculative confidence.

The industrial average gave up nearly 7 points last week, closing about 28 points below the early-September high and less than 7 points above the September 25 minor-reaction low. Following their recent unusually sharp spurt, the rails have "reverted to form", drifting down steadily from the October 11 rally high (which was a new high for this year) to nearly a 5-point lower level by the end of last week. The utility average eased slightly but stands only a fraction under its October 20 postwar high.



There has been moderate deterioration in most of the technical indicators. Declines in individual stocks last week exceeded advances by a wider, even though not great margin than in several weeks. New highs continued to exceed new lows, but by the smallest ratio in some time, with the score 106 to 91 last week, against 150 to 41 three weeks earlier. As shown by our Market Support Measures, demand has eased slightly, supply has risen slightly, leaving a favorable spread but a fairly narrow one.

A Look At Earnings

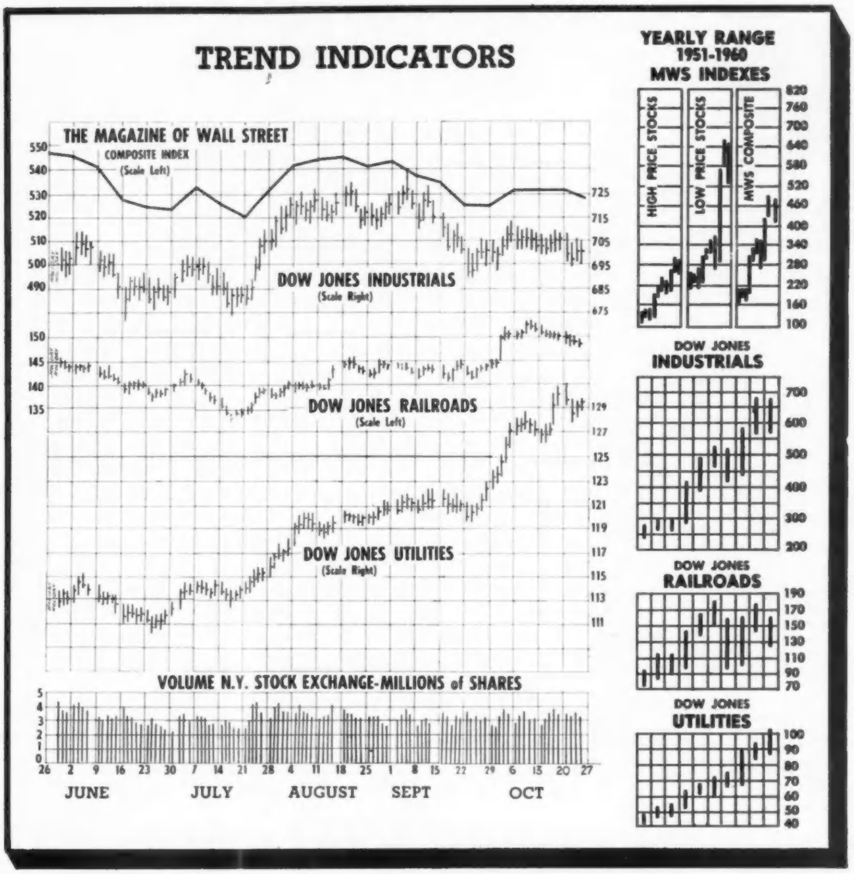
There are more third-quarter profit reports to come than have been released up to this writing. The final reckoning probably will show a fair-to-sizable year-to-year gain in average net income, since a good gain by one large company will outweigh unimpressive comparisons for a dozen or score of smaller concerns.

But it is *per-share profit comparisons* that are significant for investors. On this basis, the writer has examined reports of 175 industrial companies, excluding both a number of small concerns and deficit situations in order to arrive

at a representative sample.

The 175 companies had average third-quarter earnings of approximately 70 cents a share, against a little over 65 cents a year ago, a gain of less than 7.7%. This is unimpressive, considering the year-to-year gains in the recent quarter of 5% in industrial activity (Reserve Board index) and 4.5% in gross national product. Moreover, in 87 instances, or about half of the 175, third-quarter per-share earnings were either lower than a year ago or insignificantly changed.

This means that margins were still generally under pressure in the recent quarter as a result of higher costs — especially wages — intense competition and restricted selling prices. It may also mean that prevailing predictions of "excellent" corporate profits by the second quarter of 1962 are over-optimistic.



Brokers interested in promoting demand for common stocks still glibly talk of long-term growth in corporate profits in an expanding economy. There is praise for the Administration's promise of some general liberalization of depreciation allowances to encourage increased outlays for new plant and equipment in order to compete more effectively in domestic and foreign markets.

The fact is that total profits have lagged during a decade of unprecedented expansion in economic activity. They were about the same in 1960, under mild recession, as they were in 1950—with gross national product up about 77% for the decade, and industrial output up about 35%. In the best year (1959) total profits were up less than 4% from 1950. Over the ten years through 1960, business outlays for new plant and equipment totalled about $307 billion, and expenditures for producers' durable equipment $241 billion.

What's Ahead

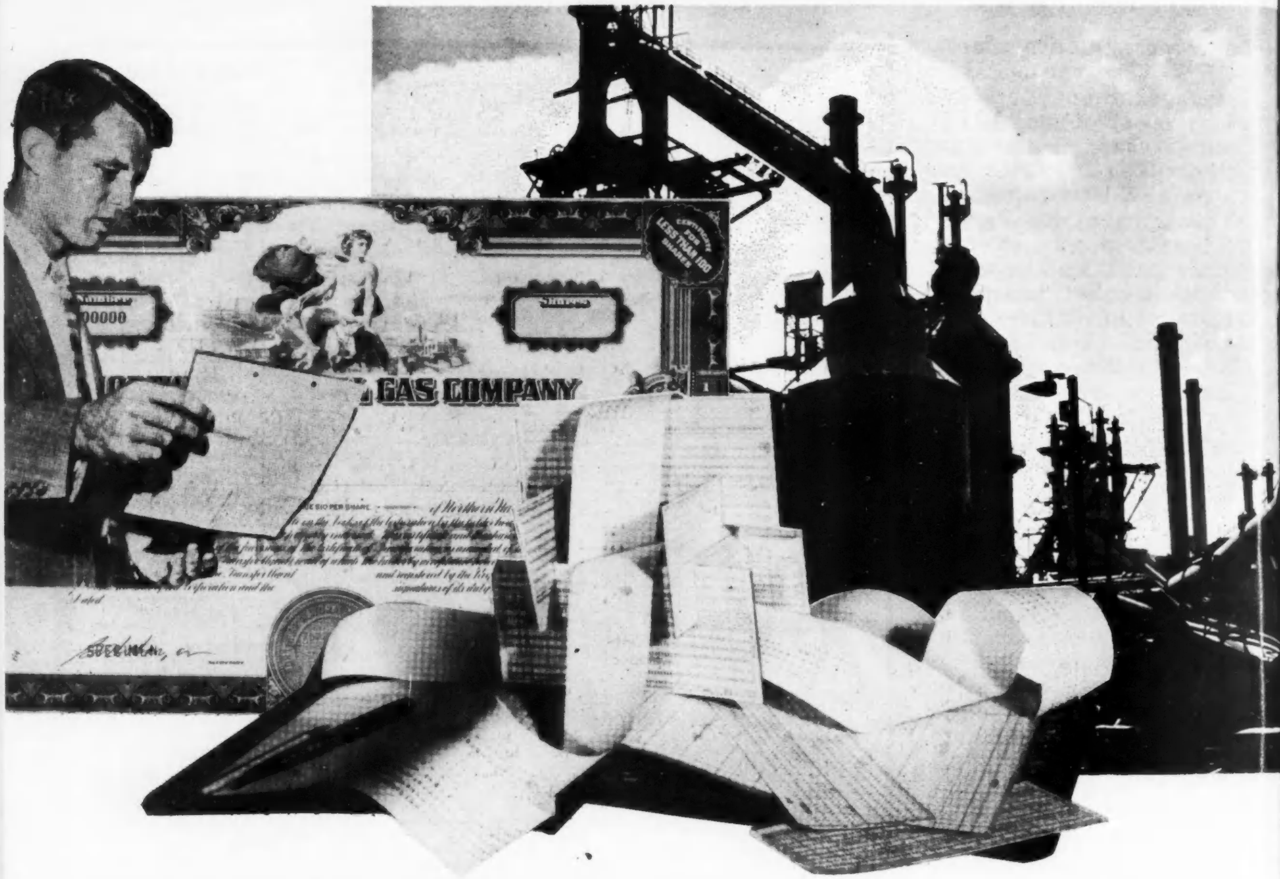
What is going to change this pattern of reduced profitability? Are the monopoly labor unions going to be less rapacious in kiting wages and costs? Of course not—regardless of Kennedy's "preaching" of moderation, while the legalized monopoly powers remain intact. Is competition from the thriving European common market, from Japan and from Russian dumping as an instrument of Red policy to become less formidable? Of course the answer is no. Is there any chance of a sellers' market in the U. S.? Of course not.

What About The Dow?

There is hopeful talk that earnings as applied to the Dow industrial average might reach or exceed a $40 annual "per share" rate by the second quarter of 1962. We doubt it—and, if they should attain such a level there is little indication that it would hold for long. In the mildest of the post-war recessions, the average was at a $22.80 annual rate in the first quarter of 1961, which compares unfavorably with the recession-low quarters of 1958 and 1954.

It would take a 40% rise to reach a $32 annual rate, 60% to a $36 rate, over 75% to a $40 rate. A temporary rate of $44.04 was seen in the 1959 second quarter on buying in advance of the steel strike, but it fell sharply thereafter and has not since been approached. Probably 1954-1955 revival experience, with a 43% 12-month gain to the 1955 second quarter, is worth keeping in mind for reference. Were this history repeated, earnings on the Dow would approach a $33 rate in the 1962 second quarter, and level out thereafter to the start of the next recession. This hypothetical level was exceeded on a full-year basis in 1959, 1957, 1956 and 1955. The difference now is that the market is much higher.

The market may go moderately higher on a year-end rally and perhaps in early 1962. But there could be real trouble ahead and it is not too soon to start thinking about it.—**Monday, October 30.**



JUSTICE DEPARTMENT THROTTLING OUR ECONOMIC GROWTH?

— And at this crucial time in our history

By ROBERT B. SHAW

NOTE: ***In addition to its own trust-busting program, the Justice Department is now seeking to set aside rulings by accredited government agencies authorized to make decisions on mergers, by classifying them as monopolistic under antitrust laws. This, although authorization has already been given by the designated agencies, and even in those cases where the mergers are already functioning.***
What is the reasoning behind these attacks, especially since the need today is for big entities able to carry on our affairs, and indeed calls for uniting small units to strengthen decision-making powers in our activities both at home and abroad? **EDITOR**

ATTORNEY General Bobby Kennedy recently announced proudly that in the fiscal year ended last June 30 the Antitrust Division of the Department of Justice had won a record volume of fines. In actual amount these came to $3,058,000 arising from 35 criminal prosecutions, as compared with $1,088,000 in fiscal 1960 and $914,000 in 1959. Nearly two thirds of the 1961 awards derived from the widely heralded price-fixing case against the electrical equipment manufacturers. This accomplishment meant that the Antitrust Division actually earned 60% of its operating costs.

Paying its own way is certainly an unusual and praise-worthy act for any government agency. Still, the administration of justice has broader objectives either than covering its expenses or satisfaction in a record number of convictions. Many signs suggest, in fact, that an overzealous attitude by the Antitrust Division is actually harming the economy. Let's pause for a brief examination of current antitrust activities, their apparent objectives and some of their results.

Opposition To Monopoly Inherent In Our System

The basic prohibition against monopolistic practices in American law was the Sherman Antitrust Act of 1890. This did not, however, establish any new principle but rather represented a codification of ideas long embodied in American (and English) common law; a number of individual states had also had earlier antitrust laws of their own. Although subsequently reinforced by the Clayton Act (1914) the antitrust laws remain extremely nebulous. For example, the Sherman Act makes it illegal to "attempt to monopolize" any market. **But it is the natural endeavor of every company constantly to attempt to increase its share of the market; the abandonment of this effort would be virtually equivalent to giving up progress. Is this practice of normal competitive spirit to be condemned as the initial step in winning a monopoly, and therefore a crime?**

But while considerable latitude must necessarily exist in the *interpretation* of the antitrust laws, there can be no doubt that these do represent the spirit of the American free enterprise system from the earliest days. Although a theoretical defense of the European cartel system may occasionally be voiced, no responsible person in this country defends monopoly.

Bobbv Kennedv Trying to Win TR's Crown?

The original "trust buster" was Theodore Roosevelt, President of the United States from 1901 to 1909. And it is hardly to be doubted that a vigorous program of trust busting was necessary in that era of rugged individualism.

But today conditions are entirely different. Even the smallest members of any industry are "big" by turn-of-the-century standards, intense competition exists among alternative services as well as like products, and our present market is world-wide rather than merely national. Unfortunately, just when the need for a reappraisal of antitrust policies is indicated, a partisan attorney general seems to be imbued with the desire to win for himself a reputation as the country's greatest trust buster.

Recent Anti-Trust Actions With Which We Are Familiar

A list of recent suits instituted by the Antitrust Division was given with an article emphasizing the necessity of modernizing these laws in our August 26 issue, and need not be repeated. So numerous are the corporate defendants in antitrust cases today that it almost seems that a company cannot be respectable unless it is being prosecuted by the Department of Justice. Besides the cases actually instituted, the Department has also hinted vaguely at still other prosecutions; it has suggested, for example, that American Telephone Company, one of the most thoroughly regulated corporations on our business scene, may be compelled to give up its overseas communications networks.

Altogether, about 150 cases are now being prosecuted by the Department's Antitrust Division.

Justice Department Clashes With Other Agencies

Now, business certainly would have no reason to complain against close surveillance by the government. Modern industrial society has become so complex that an arbiter of law and ethics is often necessary, even where no bad faith is involved.

But it is entirely erroneous to imagine that no other watchdogs of corporate conduct than the Department of Justice are patrolling the business scene. On the contrary, seven powerful agencies are specifically charged with regulating business activity in their respective fields; these agencies are the *Interstate Commerce Commission*, the *Federal Trade Commission*, the *Federal Communications Commission*, the *Federal Power Commission*, the *Securities and Exchange Commission*, the *Civil Aeronautics Board* and the *National Labor Relations Board*.

Federal Regulatory Agencies

Agency	Date Founded	Responsibility
Interstate Commerce Commission	1887	Railroads, Common Carrier trucks and large lines.
Federal Trade Commission	1914	Business practices; advertising, labeling, price discriminations, etc.
Federal Communications Comm.	1934	Telephone and telegraph, Cos., radio and TV networks; private communications of other companies.
Federal Power Commission	1920	Gas and electric interstate utilities.
Securities and Exchange Comm.	1934	Fund raising, financial activities of all companies.
Civil Aeronautics Board	1938	Air line rates, services, schedules, mergers, etc.
Federal Reserve Board	1960*	State banks belonging FR system.
Comptroller of the Currency	1960*	National banks.

*—Date of inception of responsibility for merger approval.

Other than the I.C.C. (founded in 1887), all of these agencies are "new" and were created specifically to deal with modern business problems. Collectively they are so powerful that they are often referred to as a fourth major branch of the federal government. "Without the sanction of these agencies no railroad, no airline, no interstate trucker, no pipeline or barge line may introduce a new service, discontinue an old service, or set a rate; no radio or television station may operate; no gas producer may market his fuel or figure its price in interstate commerce; no interstate public utility may build a power plant; no sizable firm may market a new security, or safely plan a merger."

Additional regulatory authority was also assigned last year to the Federal Reserve Board to rule upon mergers of state banks belonging to the Federal Reserve System and to the Comptroller of the Currency for the national banks.

These commissions are headed by experts appointed by the President and staffed by large groups of specialists. Their major purpose is to protect the public at large. The unbiased observer might imagine that the supervision of these agencies would be adequate, their judgment more reliable than that of legal sleuths with little business experience. "Not so," retorts the Department of Justice. "We are better qualified to protect the public interest than

these specialized agencies." And it has clashed with them in a number of instances—a series of family quarrels.

El Paso Natural Gas Case

One such instance is the divergence between the Federal Power Commission and the Justice Department over acquisition by El Paso Natural Gas of Pacific Northwest Pipe Line, in 1959. El Paso, a major supplier of natural gas in California, sought the consent of the FPC in 1957 to acquire Pacific Northwest, as part of a program to supplement its original Texas and New Mexico reserves with Canadian gas. **And pursuant to an order of public convenience and necessity issued by the FPC the merger was consummated, on the last day of 1959.**

► Before the union was officially carried out, El Paso had already owned 99% of Pacific Northwest's common stock. In 1957 the Department of Justice brought suit under the Clayton Act seeking to dissolve this association, on the grounds that its effect was "substantially to lessen competition or tend to create a monopoly", and it has declined to withdraw this case even after FPC endorsement of complete merger.

• Now it is true that El Paso until recently (when Pacific Gas & Electric completed an affiliated pipe line reaching Canadian reserves) did hold a monopoly in the supply of California distributors—but the answer to this is that it is a regulated utility. The FPC deliberately restricts competition to avoid wasteful duplication; in return those companies privileged to hold franchises are subject to rigid rate regulation.

Strangely enough, the Clayton Act, upon which Justice based its opposition to El Paso's original acquisition of 99% of Pacific Northwest's stock, states: "Nothing contained in this section shall apply to transactions duly consummated pursuant to authority given by the Federal Power Commission . . ." What could be more specific?

Justice Department Intervenes in Railroad Mergers

Of all industries the railroads are certainly the most thoroughly regulated—by the Interstate Commerce Commission, the oldest of the independent agencies. The I.C.C.'s authority extends to rates, services, abandonments, accounting, the issuance of securities—and mergers, and it is no exaggeration to say that the railroads have almost been regulated to death.

In the light of this background it is ludicrous to find the Justice Department intervening to block several mergers, while the I.C.C. is still engaged in weighing the issues involved. Railroad mergers are now almost universally recognized as, not merely a desirable, but an essential process if the economies of rail transportation are to be preserved. As a matter of fact the federal government itself, under the Transportation Act of 1920, proposed a vast program of railroad unification.

Among the present important merger proposals is that of the Chesapeake & Ohio with the Baltimore & Ohio. Obviously the weak B. & O. requires union with some stronger carrier in order to regain its fiscal health. The Justice Department has, however, moved to dismiss applications by both rivals, the New York Central and C. & O., to control the B. & O. If accomplished, this step would cancel one of the best hopes for railroad progress in the East.

Again on the Pacific coast, the Justice Department is seeking rejection of the application of both the Southern Pacific and Atchison Roads to acquire the short but strategic Western Pacific. It is possible that some element of monopoly could be construed here, as the Western Pacific closely parallels the Overland Route of the S. P., but this view forgets—as the government regulators have been prone to do all along—that the railroad's most intense competition is now with other agencies of transportation, no longer with each other. In both of these cases, it is true, the Antitrust Division found a technical excuse for intervention, viz. *the claim that in the absence of approval by the I. C. C. the acquisition of partial control by purchase of stock was illegal, but this position is far-fetched and contrary to practices that have been carried on without objection for years.*

Bank Mergers Approved — and Disapproved — By Government

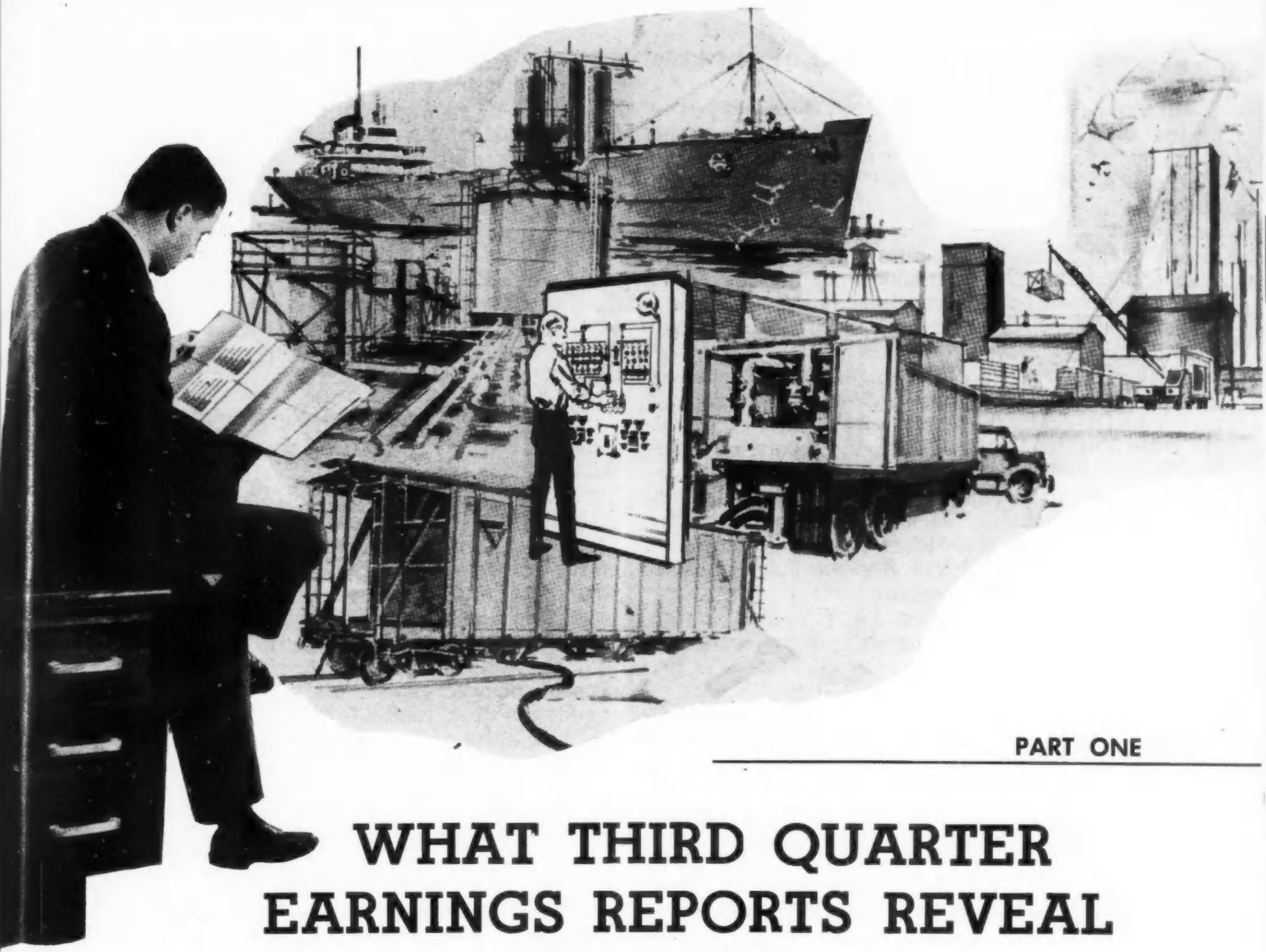
Most recently in the limelight has been the conflict between the Justice Department on the one hand and the Treasury and Federal Reserve Board on the other arising out of the merger of several large banks.

► As a matter of fact, it was generally assumed for many years that the Sherman and Clayton Acts did not apply to banks, which were not regarded as within a strict definition of "commerce". In its present empire-building guise, however, the Justice Department has sought to broaden this definition and extend its control over banking institutions.

This question was supposedly settled only last year, when bank mergers were already an issue, by a new law which provided that mergers of national banks must be approved by the Comptroller of the Currency and those of Federal Reserve member state banks by the Federal Reserve Board. The respective financial authorities were directed to consult the Justice Department on all applications, but the final decision would be the responsibility of the former. *Nevertheless, the Antitrust Division has continued to insist that approval of merger under the 1960 law does not exempt the banks from the Sherman and Clayton Acts.*

► In a kind of gentlemen's agreement, Bobby Kennedy and Treasury Secretary Dillon agreed earlier this year that the Treasury (Comptroller of the Currency) would not approve any mergers opposed by Justice until this question has been clarified, but the agreement was violated in August when Comptroller Roy Gidney sanctioned the merger of the Continental Illinois and City National Banks, in Chicago. Subsequently, an injunction to block the merger was rejected in the Federal District Court in Chicago and the union of the two banks has been consummated. It is not clear at the moment whether the Antitrust Division will attempt to unscramble it.

► A similar episode occurred in New York City. After the Federal Reserve Board, on September 6, authorized the merger of the Manufacturers Trust and Hanover Bank, the Justice Department filed suit to block its accomplishment. Admittedly the two banks raced to complete the formalities before Kennedy's legal beagles could appear on the scene, and the contest was so close that it turned in the end on the banks' successful *(Please turn to page 205)*



PART ONE

WHAT THIRD QUARTER EARNINGS REPORTS REVEAL

—Looking to 1962

By WARD GATES

THE picture of third quarter earnings which is emerging from the first important outpouring of corporate reports is fuzzier than most analysts had anticipated. Beyond a doubt there is overall improvement when earnings are compared to the third quarter of last year, but that is not as significant as it seems on the surface.

A year ago our basic industries were in a full fledged recession and most economic indicators were still pointing downward. During the present year's third period, on the contrary, the economy was in a cyclical upswing, with both the statistical indicators and businessmen's aspirations pointed upward. Hence a better earnings showing for companies in general was a foregone conclusion.

Chemicals Running Hard To Stand Still

What is now disturbing investors is the disappointing quarter by quarter comparisons for many key companies and industries. The chemicals, for example, are an enigma. A year ago, when most basic industries were having serious troubles, chemical earnings held up relatively well. This year, despite broad scale if unexciting industrial recovery, many major chemical companies not only failed to match last year's earnings, but also fell behind the second quarter of 1961.

Allied Chemical, a major basic chemical producer with wide participation in many basic areas of the economy, was particularly disappointing in view of the sharp recovery its earnings had scored in the second quarter. Sales jumped pleasantly three months ago, and earnings at 81¢ a share were almost double the first quarter results. In the third quarter, however, sales fell sharply, and earnings dropped to 52¢ a share, a figure far below the previous quarter and slightly behind the third quarter of last year.

Allied's misfortunes reflect the hesitancy in steel output that has characterized the steel industry throughout most of the recovery. Steel demand has been fair but unexciting; hence the steel makers have been cautious about taking on raw material inventories, when they know that adequate capacity exists within the chemical industry to provide their needs on a moment's notice.

In addition many of Allied's products are byproducts of the steel-making process. Therefore, a

relatively low output of steel cuts its supply of many important chemicals.

But even chemical companies more remotely connected with the steel industry had troubles in the third quarter. **du Pont** barely managed to top the $1.96 per share it earned in last year's third period, but both sales and earnings fell from the second quarter of this year. In all probability the earlier model changeover in the auto industry is largely responsible, since the car makers are big customers for du Pont paints. Nevertheless, at this stage of a cyclical recovery, the earnings picture should have been better.

What is even more disturbing for the chemicals is that profit margins have not expanded the way they usually do in the early phases of a recovery. **Hercules Powder,** which has a fine record of earnings and is well situated to benefit from both industrial and defense demand, illustrates the point. A year ago the company earned 85¢ a share in the third quarter on sales of $89 million. This year sales of $92 million produced only 82¢ per share in earnings. Moreover, in the second quarter the company earned 84¢, but sales were $99.5 million. Profit margins have been slipping all year despite the pickup in business.

Eastman Kodak, on the other hand, was able to better its profit margins in the most recent quarter, after a period of slipping margins. In the most recent quarter, sales advanced to $234 million from $229 million a year ago and earnings rose to 88¢ against 84¢. Of perhaps greater significance is the fact that while sales for the first nine months were slightly ahead of a year ago, profits still trailed 1960. The all-important Christmas season is still ahead, of course, but barring a major upswing in consumer buying, Kodak will have difficulty topping 1960 earnings.

Retreat of Building Company Profit Margins

Chemical companies were not the only ones with profit margin problems. **Johns-Manville,** a major producer of building materials, managed to score a record volume of business in the third quarter, with sales rising to $106.7 million from $99.6 million last year. Earnings, however, made no progress whatever, coming only to exactly the same 90¢ per share reported a year ago.

Higher wages and lower prices explain the company's plight to some extent, but by no means entirely. A big factor was probably a miscalculation on management's part concerning the extent of the economic recovery. Johns-Manville is not alone in this situation. Six months ago industry economists were virtually unanimous in their insistence that the latter half of 1961 would be one of sharp business recovery. Inventory and selling plans were laid accordingly. The recovery has materialized, but not nearly so spiritedly as expected. The result has been consistent pressure on prices and higher inventory accumulations than can be justified by the actual level of business.

Minneapolis-Honeywell, which is also tied closely to the building market, probably suffered from the same factors. But there were other profit margin depressants as well. Until a year or so ago, Honeywell had one of the most consistent rising profit margin records of all major companies. The picture has changed, however, since the company initiated its major attempt to break into the computer field.

Revenues continue to rise, especially since some computer lines have been well received, but exceptionally high development costs have been eating deeply into profits. Earnings barely topped the second quarter of this year despite a rise in sales, and were actually 7¢ a share below earnings in the third quarter of last year. The company is gambling on a broad line of computers. Unless the lines are firmly established, lower profit margins will remain the order of the day.

No Rebound Yet in Paper

The pattern that is emerging from spotty third quarter earnings so far available is disconcerting. Companies are doing more business, but those in basic industries are not making bigger profits. This goal is vital, since the currently high level of most stock market averages represents an anticipation of a strong recovery in corporate earning power. So far, however, third quarter profit reports fail to support a high degree of optimism. Rather, they show that industry has not yet overcome the problem of overcapacity and the consequent glut of production that issues forth at the first sign of a business upturn. The pressure on prices, therefore, remains almost as burdensome as ever.

The paper industry offers further corroboration of this picture. **St. Regis Paper** has enjoyed a steady if unsensational upswing in sales for over a year, but profits have been virtually static. A year ago, per share net equalled 39¢; in the first quarter of this year it amounted to 37¢, followed by 36¢ in the second quarter, and now 38¢ in the latest reporting period—certainly a lack-luster performance.

The company's backlog continues to build up, especially for Kraft paper, but price weakness in most important lines has prevented earnings progress. Recently prices were raised for multiwall bags, but it is still far from certain that the line can be held.

Scott Paper, which is tied more closely to the consumer than most paper companies, also suffered some deterioration in profit margins this year. Earnings in the third quarter came to 80¢ a share, a shade above the 79¢ reported a year ago. However, sales were far ahead of the year-earlier period, indicating profit margin troubles. Scott has a strong history of profit margin stability, however, and should be able to recover, especially if year end business is strong.

Steel Profits Exceed Year-Earlier Level But Lack Momentum

The major exception to the poor showing among the basic industries is the steel group. **U.S. Steel** and **Bethlehem,** the two industry leaders, had not released their earnings at the time of this writing but other important producers give indications of what has happened. A year ago, steel operations were near the low point of the recession. **Republic Steel,** third largest in the industry, saw its profits fall away to 47¢ a share, well below its dividend requirement.

Quarterly Income Comparison of Industrial Companies

	3rd Quarter 1961			2nd Quarter 1961			1st Quarter 1961			3rd Quarter 1960		
	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share	Net Sales (Mil.)	Net Profit Margin	Net Per Share
Allegheny Ludlum Steel	$58.4	4.2%	$.64	$60.8	4.7%	$.74	$54.1	2.6%	$.37	$50.2	1.2%	$.17
Allied Chemical	181.2	5.6	.52	211.3	7.6	.81	168.5	5.6	.47	187.5	5.6	.53
Allis-Chalmers Mfg.	116.7	d1.3	d.18	140.5	2.3	.35	119.6	1.2	.15	127.8	.9	.13
American Cyanamid	146.6	7.5	.52	152.7	7.5	.54	148.1	8.2	.57	136.8	6.2	.40
American Hospital Supply	33.0	5.4	.21	30.2	4.0	.15	27.1	4.1	.14	29.0	5.0	.18
Amer. Rad. & S. S.	124.0	3.8	.41	120.0	2.5	.26	107.2	1.2	.11	127.3	3.0	.32
Beckman Instruments	16.5	5.8	.64	20.1	7.3	.80	17.0	5.4	.67	15.8	5.1	.57
Bell & Howell	29.4	5.7	.44	28.5	2.8	.21	22.8	.4	.02	28.8	5.6	.43
Burroughs Corp.	97.4	2.3	.35	94.3	1.9	.27	90.4	1.5	.21	85.8	1.3	.17
Caterpillar Tractor	205.1	8.0	.60	200.8	7.8	.57	168.1	6.9	.42	185.8	6.6	.45
Celanese Corp. of Amer.	73.3	7.0	.53	71.4	7.8	.52	62.0	5.7	.32	64.5	7.0	.46
Consolidation Coal	54.3	7.7	.46	53.5	6.7	.40	57.8	5.7	.37	55.0	4.9	.30
Container Co. of Amer.	84.5	4.8	.38	83.5	5.6	.43	76.8	5.3	.38	85.4	4.9	.39
Continental Can	346.1	4.4	1.24	293.5	3.4	.81	242.0	2.0	.39	334.2	3.1	.84
Crane Corp.	86.1	2.6	1.55	77.8	1.3	.69	64.8	1.5	.60	75.8	2.7	1.31
Douglas Aircraft	184.3	.6	.33	227.0	.6	.40	204.8	8.3	.45	292.4	d.4	d3.43
Dow Chemical	210.0	8.4	.61	212.7	8.6	.63	182.4	6.6	.42	208.3	9.0	.67
Du Pont	552.0	N. A.	2.11	570.7	17.7	2.15	520.0	16.7	1.85	531.2	17.4	1.96
Eastman Kodak	234.9[1]	14.3	.88[1]	220.4[1]	12.5	.72[1]	193.8[1]	11.2	.56[1]	229.7[1]	14.2	.84[1]
FMC Corp.	110.4	5.3	.82	113.9	7.3	1.17	91.4	4.8	.62	94.3	4.7	.63
Ferro Corp.	15.7	4.0	.75	15.9	4.0	.79	13.8	2.9	.50	14.3	3.0	.53
General Electric	1,063.6	5.4	.65	1,081.8	4.7	.57	992.2	4.2	.48	1,030.5	5.5	.65
General Foods	274.1	6.4	.71	288.5	5.9	.69	399.1	4.7	.76	285.6	5.8	.68
General Portland Cement	16.0	16.3	.49	16.1	17.2	.52	11.7	11.1	.24	16.7	18.7	.49
Gillette Co.	70.3	17.6	1.33	61.5	15.7	1.03	62.1	16.1	1.08	61.2	15.4	1.01
Goodrich (B. F.)	189.3	4.2	.87	197.4	4.7	1.02	172.9	3.3	.63	183.7	3.2	.66
Hercules Powder	92.2	N. A.	.82	99.4	7.7	.84	88.8	6.2	.61	88.8	6.2	.85
Ideal Cement	36.6	13.5	.44	34.8	13.9	.43	21.7	12.3	.23	34.1	12.0	.36
Intern. Business Mach.	433.3	12.0	1.89	422.1	12.3	1.89	389.0	12.5	2.67	345.9	12.2	1.55
Johns-Manville	106.7	7.1	.90	103.1	8.0	.97	69.9	3.0	.25	99.6	7.6	.90
Jones & Laughlin Steel	194.8	5.1	1.24	188.4	4.9	1.13	158.1	1.6	.28	164.2	2.1	.40
Kaiser Alum. & Chemical	105.7	5.1	.27	110.1	6.4	.39	96.2	3.9	.16	99.3	5.9	.31
Liggett & Myers Tob.	133.0	5.3	1.73	133.9	5.4	1.76	120.2	4.4	1.27	141.5	5.1	1.83
Lorillard (P.)	124.3	5.8	1.08	126.5	5.8	1.10	115.0	5.1	.88	122.4	5.6	1.03
Minneapolis-Honeywell Reg.	117.1	5.1	.84	113.5	5.2	.83	103.1	4.1	.61	107.0	5.9	.91
Monsanto Chemical	229.3	6.7	.56	246.3	7.7	.70	219.3	7.7	.57	218.3	7.0	.57
New York Air Brake	11.7	4.3	.68	9.3	3.5	.44	9.3	2.2	.28	9.4	5.0	.64
Parke, Davis & Co.	46.0	9.8	.31	42.6	8.6	.25	47.5	12.1	.39	52.2	14.1	.50
Polaroid Co.	25.5	8.7	.57	20.0	4.7	.24	14.0	1.7	.06	19.1	8.4	.41
Rayonier	33.8	5.8	.34	33.9	6.4	.37	30.7	5.0	.27	30.6	6.8	.37
Raytheon Co.	126.9	1.4	.45	142.0	1.1	.40	138.1	.9	.33	125.2	1.5	.48
Republic Steel	264.6	4.8	.81	252.1	6.1	.98	190.7	3.0	.37	217.5	3.3	.47
Reynolds (R. J.) Tob.	398.4	8.0	.79	388.6	7.7	.74	356.3	7.5	.66	372.9	7.2	.67
Rohm & Haas	53.2	8.8	4.02	58.7	9.7	4.99	51.8	7.7	3.46	52.5	8.9	4.07
St. Regis Paper	141.5	3.1	.38	141.8	3.0	.36	131.4	3.2	.37	137.3	3.3	.39
Schering Corp.	23.0	15.4	.86	20.7	9.2	.45	18.8	9.2	.41	22.5	14.1	.77
Scott Paper	83.8	8.1	.80	83.6	8.6	.87	79.4	8.4	.81	76.6	8.3	.79
Simmons Co.	34.2	3.9	1.13	30.3	2.7	.72	27.8	.6	.16	33.1	2.8	.80
Smith Kline & French Lab.	38.2	18.3	.48	40.2	18.4	.51	37.7	17.7	.46	36.2	17.4	.43
Texas Gulf Sulphur	14.9	20.0	.29	16.0	20.0	.33	13.4	20.4	.27	16.0	21.4	.34
Union Bag-Camp Paper	52.6	7.2	.49	55.2	7.8	.56	57.8	9.0	.56	53.1	8.1	.56
Upjohn Co.	43.0	15.7	.48	39.2	11.7	.33	39.4	13.7	.39	42.2	16.4	.49
Worthington Corp.	47.2	2.6	.70	49.0	3.0	.84	41.4	3.2	.77	48.3	3.0	.84
Wrigley (Wm.) Jr. & Co.	26.7	12.8	1.74	27.4	12.3	1.72	24.3	9.1	1.13	27.3	11.4	1.58
Youngstown Sheet & Tube	143.9	3.5	1.47	144.1	5.6	2.34	116.5	2.3	.77	121.6	2.2	.77

d—Deficit. N.A.—Not available. [1]—12 weeks.

This year, however, Republic's profits are at a more respectable level of 81¢ a share. Nine month figures, however, are still behind a year ago, indicating that, despite three consecutive quarters of recovery, full-year earnings may still trail 1960. The comparison is not completely valid, however, since earnings in the first quarter of 1960 were still exceptionally high as an aftermath of the steel strike that halted production for the entire last quarter of 1959.

What is still disturbing, however, is the fact that earnings for Republic fell behind the 98¢ a share reported in the second quarter of this year. The early model changeovers in the auto industry, of course, cut the demand for steel. So did the threat of major auto strikes since the car makers ordered steel with caution in the face of protracted negotiations. Nevertheless, demand from other major steel users was also laggard—or at least far from spirited.

Further evidence comes from the **Youngstown Sheet** figures. Earnings doubled over the third quarter of a year ago, but this year's $1.47 a share compares with $2.34 a share in the second quarter. The sharp drop hardly paints a picture of a booming economy. Both companies have high hopes for the fourth quarter, but from the data available so far, they will not be realized. Steel production has actually declined moderately so far in the final quarter, so that even a sharp upturn in the last month of the year can hardly bring in enough profits to top last year's record.

Better News Among The Consumer Industries

If heavy industry is having its troubles there are others, however, that continue to enjoy prosperity. Companies closely tied to the consumer are again proving their mettle. **Gillette,** whose profit record has been extraordinary in the past few years, continues along the same path. After a slow start in the third quarter, earnings suddenly spurted in the wake of a sharp upturn in demand for razor blades, pens and cosmetics. The pleasant result was earnings of $1.33 per share vs. $1.03 in the second quarter and only $1.01 in the third quarter of last year.

Gillette's policy of merchandising only low priced, everyday items has proved a bonanza. Nine months earnings this year, in fact, topped full-year earnings for 1959 and at $3.43 a share were only 50¢ behind the full-year results for 1960. The price of the stock has probably outrun the earnings, but investors should pay it serious attention if the issue should decline in a general market setback.

Reynolds Tobacco also continues its winning ways with each passing quarter. Cigarette shipments were up again and earnings climbed to 79¢ a share from 67¢ a year ago. In addition, the current figures represent a modest improvement over the 74¢ reported in the second quarter.

Reynolds has grabbed off the lion's share of the new mentholated cigarette market, while remaining among the leaders in conventional brands. Its record of success is long established, and is evidenced by its high price and significantly lower yield among the cigarette companies.

Liggett & Myers, however, still shows evidence of the troubles that have beset it for the last few years. The company's brands have been losing out gradually to others, and profits have consequently felt the pinch. Moreover, the attempt to recapture its position is leading to high promotional costs and lower profit margins.

A year ago Liggett had sales of $141 million and earnings of $1.83 a share. In this year's third quarter sales fell sharply to only $133 million and earnings dropped to $1.73. Sales and earnings were also both below the second quarter. Liggett should cover its dividend but coverage is getting smaller each year, making it necessary for investors to watch developments closely.

Another star performer in the consumer fields which continued to make progress in the third quarter was **General Foods.** Sales actually declined moderately from last year's third period, but better profit margins raised per share net to 71¢ from 68¢. The company is an established blue chip in the food field and demonstrates year after year that it has the products and the know-how to maintain a constantly rising earnings trend.

Caterpillar, Douglas Aircraft, Continental Can

Shareholders did receive favorable reports from several companies that have been exhibiting troubles recently. **Caterpillar Tractor** scored an unexpected resurgence in sales in the third quarter, and at the same time widened its profit margin substantially. Earnings came to 60¢ a share from only 45¢ a year ago. Moreover, despite the slowdown in some segments of the economy during the summer, Caterpillar also managed to better its second quarter results.

The company has been concentrating on cost reduction and the maintenance of the price line. Obviously these measures have been largely successful, as profits expanded sharply as soon as shipments turned upward.

Even more reassuringly, **Douglas Aircraft** this year has finally broken out of the string of deficits it had been reporting to shareholders. Profits were reported in the two opening quarters of the year and again in the most recent period. But although the 33¢ a share earned in the third quarter looks good compared to last year's $3.43 deficit, the figures and the news from the company still leave much to be desired. Third quarter earnings were the lowest for any quarter this year, reflecting a sharp decline in shipments. In addition, the company reported a big drop in its backlog position as a result of the termination of aircraft contracts. The virtual end of the B-70 program will cause additional troubles for Douglas.

On the plus side, most of the development costs of the jet transports have now been written off, so that earnings will no longer be punished as severely as they were over the last two years. Still the chance of a strong earnings uptrend in the near future appears remote.

Continental Can's report made happier reading for shareholders. In the past year or two, operations have been upset by price problems and the need to develop new lines of *(Please turn to page 205)*

A New and Timely Reappraisal of

ALL PHASES OF THE CONSTRUCTION INDUSTRY

— Looking to 1962

By EDWARD A. SPRAGUE

IN 1961, the building business should account for a greater dollar amount of goods and services than in any previous year in our history. This now seems a fairly safe assumption with the current rate of new construction expenditures running well ahead of last year. The Department of Commerce estimates that total 1961 construction activity will be valued at $57.8 billion. Little wonder, then, that construction is known as the nation's largest fabricating industry.

Furthermore, construction has been one of the "growingest" industries in the postwar period. With the single exception of 1960, when a small decline was registered, overall expenditures for new construction have risen each year since the close of hostilities in 1945. The industry has weathered four postwar recessions without stopping for breath. It has taken steel strikes, the Korean War, and housing "scandals" in stride.

Not all building types have shown such consistent gains as the total, naturally, and rising costs have moderated the increases in the physical volume of building (in terms of square footage or price-adjusted dollars). Nevertheless, the industry can "point with pride" to an enviable record of growth and accomplishment over the last 16 years.

Yet there are now, and have been right along, nagging fears about the future of the building business. No matter how prosperous it has been, at any given moment you could find a handful of people asking, "Yes, but can it last?" The fact that it has lasted for 16 years has dampened the pessimism of some, but their places have been taken by others.

The most frequent question asked by the chronic pessimists is: "Aren't we in danger of over-building?" To properly answer that question, we should first examine the reasons for asking it.

Ghost of 1933 Still Haunts Building Industry

The building business was once considered extremely sensitive to every swing in general business activity. It was thought to react more strongly to the gyrations of our national economy than many other industries, even those manufacturing durable goods such as automobiles and appliances.

In addition, economists in the past busied themselves analyzing the so-called "long-wave" cycles in new construction. The most popular of these was the "18-year cycle" whereby construction was supposed to complete, on the average, a full circle of gradual growth, relapse, and new growth every 18 years. Theoretically, the "long-wave" cycle operated

independently of short-run fluctuations in building induced by general business conditions. Economists did admit, of course, that a business "panic" (as recessions were formerly called) could distort the long-run building trend, temporarily retarding the upward phase or speeding the downturn, depending on when the panic occurred. The reverse was held true for periods of business prosperity.

In the prewar historical record a fair amount of evidence could be found to support these views. Cited as the most notorious example was the behavior of the construction activity during the cataclysmic depression of the 1930's. By 1933, expenditures on new construction had fallen steadily and with distressing rapidity to a level 66% under the previous peak year of 1927. It then required eight years to regain the lost ground, and might have taken longer had it not been for the stimulus of rearmament.

Although this well defined cycle ran under 18 years, at the time it seemed to vindicate the "long-wave" theorists. The assumption was that a severe business contraction had coincided with a general downtrend in building. The result was, in fact, extensive unemployment, plunging sales, disappearing profits, and high failure rates in contract construction and the building materials industries.

Because the building business was hit so much harder by the Great Depression than most other industries, the scars have taken longer to heal. Unquestionably, the current fears of "overbuilding" stem, in large part, from the sad experiences of the 1930's. Thus, despite almost constant expansion since World War II (and, according to some observers, because of it), the spectre of a serious collapse in construction activity still looms in the minds of many investors, businessmen, and economists alike.

What is Different Now

There is no gainsaying the *possibility* of a drastic cutback in construction in the near future. But our present economic environment and more particularly the composition of the construction industry itself make such an event rather unlikely.

Much has been written about the role of "automatic stabilizers" and built-in safeguards that have made the general economy less liable to a serious depression. The increasing sophistication in the reporting of economic trends and in the use of monetary and fiscal policies by the Federal government is another factor. This certainly does not mean the business cycle is no longer a problem. But an economic catastrophe on the order of the Great Depression is no longer likely to impinge on the construction industry.

So much for that external threat. But what the pessimists are really worried about is what construction is doing by itself—in their view, building has outraced the market.

This may have been true in the speculative rush of the 1920's when apartments and office buildings went up in many locations with little or no assurance of demand to fill them. But nowadays, the speculative element in new construction as a whole is of much smaller import.

In the first place, approximately 30 per cent of all new projects are now publicly-owned compared to about 20 per cent in the 1920's. No matter what the political implications of this may be, schools, roads, public buildings, etc. are obviously non-speculative projects.

But in the private sphere, too, there is now little chance of building too far in front of the market. Utility systems, churches, factories, and private hospitals are practically always built on order for the owners. True, there is some speculation in office building and store building, but even here it is a rare shopping center or office building that is put up before the owners have located at least their major tenants.

Housing is the one big area where speculative building still plays a major role. Yet despite the rise of the merchant builder in the postwar period, there probably has been considerably less "risky" building in the single-family house field than is popularly imagined. Many developers build from models, and undertake construction only when they have a buyer. Others build perhaps a month or so ahead of sales; if the flow of sales turns down, they curtail their output. Since a typical house can be put up in a few months, the builder can react quickly to market changes. Furthermore, because most builders depend on borrowed funds, they cannot push out too far ahead without the consent of their lenders. The generally conservative attitude of most banks and other institutions involved in home construction financing tends to limit reckless expansion of home building operations.

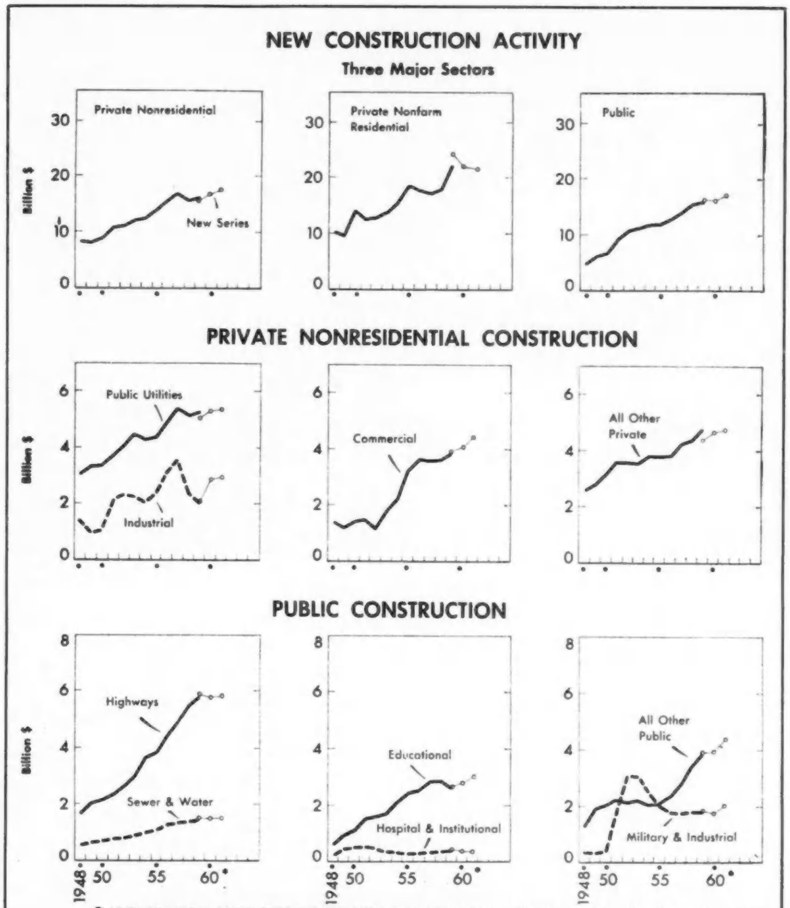
Nevertheless, there is one remaining area which is still quite prone to out-and-out speculative building. That is apartment construction. If anything, apartment building on a speculative basis has been made easier by the Real Estate Investment Trust Act of 1960. There are now signs that the recent boom in apartment construction may be overreaching itself in some places. More about this a little later. But for the moment, it should be remembered that, important as this type of construction is, it represents only a small fraction of total construction—about seven per cent at present.

The Current Outlook

So far we have been discussing only a negative or neutral factor in the construction outlook. But if we can assume, as the foregoing evidence suggests, that building activity will not fall on its face in the near future, what is it going to do? The answer to that should be revealed to a considerable extent by conditions in the various sectors of the industry.

The setting is, for the most part, rather favorable. The mild recession of last winter is a shadow of the past. The major indicators of the national economy are pointing to further business gains in the months ahead. Typical forecasts of the broadest measure of the economy, the Gross National Product, predict a level of between $560 billion and $580 billion (at annual rates) by the fourth quarter of next year. If realized, this would represent a substantial increase over the last reported figure of $526 billion for the third quarter of 1961. Industrial production, consumer spending, and plant and equipment spending are also expected to move into new high ground. Sharply increased defense spending will contribute a fillip to the normal recovery pattern.

• True, credit conditions will probably tighten



*LAST PLOTTING POINT REPRESENTS DATA FOR FIRST 8MONTHS 1961, SEASONALLY ADJ, AT ANNUAL RATE

somewhat during the coming year but not enough to really discourage construction. Continuing inflation will also pose a serious problem and unemployment may still be at uncomfortably high levels. But barring a drastic worsening of the international situation, which would throw all present economic forecasts out of line, 1962 shapes up as a prosperous year for most lines of activity.

A rise in the gross national product of the size indicated, would benefit many types of construction, particularly in the privately-owned sector. Naturally, even in this sector, not all building categories would share in the expansion to the same extent. and this leads to consideration of some specifics of the construction outlook.

Non-Residential Building Particularly Active

► **The largest single non-residential building category is commercial building — office buildings, stores, restaurants, garages, etc. Dollar expenditures in this category amounted to a record $4.2 billion in 1960 and are currently running over 10% ahead of last year's pace. The high volume of contract awards for both stores and office buildings during the first eight months of 1961 appears to guarantee continuation of the upward trend in commercial building. Contracts, of course, precede actual construction activity by varying periods. In the case of a large office building, the lead time is substantial, running two years or more from the date of the contract award to completion of the project.**

For 1962, new construction activity in the commercial building field should amount to over $4.6 billion, up at least 5% from this year.

• On the local scene, commercial building contracts in New York City area are moving well ahead of last year. More than 12 million square feet of office space is now under construction for completion through 1962 in Manhattan alone, and nearly 10 million square feet of additional office space is projected for completion by the end of 1963. Plans for new office and apartment buildings in the city are collecting at a record rate. Part of this rush, of course, reflects the desire to file plans before New York's new zoning code takes effect at the end of the year.

Overbuilding Fears Exaggerated

► Despite the indications of a strong showing for commercial buildings next year, this category remains particularly subject to accusations of "overbuilding." New York City office building has been singled out as an example of "too much, too soon". A substantial part of the general office building boom in recent years has been attributed to tax considerations alone, which could be changed at the whim of Congress.

• These fears do not seem to be borne out by the vacancy statistics. Only a slight increase in office vacancies has been reported for the nation as a whole. Locally, according to the Real Estate Board of New York's annual occupancy survey of competitive office buildings, the rate of vacancies did not rise for the year even though nearly 5 million square feet of space had come on the market since last year's survey. As of May 1, 1961, office building vacancies in Manhattan were less than 3%.

• Even if there is a slowdown in nation-wide office building after next year, it should be no more than a temporary pause. For office building cannot help but benefit from the increasing proportion of trade, financial, and service activity in the economy and the growth of "white-collar" work relative to farm and manufacturing employment. The desire of many firms to centralize their administrative work in modern facilities holds special promise for office building in New York and other large cities. While manufacturing operations have tended to decentralize all over the country, administration has done just the opposite. New York and Washington, in particular, are more dominant as headquarters cities than ever before.

Recent Drop in Contract Awards May Check Factory Construction Next Year

► Moving on in the *(Please turn to page 210)*

Inside Washington

BY "VERITAS"

ORGANIZED LABOR, after a series of setbacks in the recently-ended Session of Congress, is "getting on the ball" to effectuate its prime legislative goals early in the next Session. With a months-early solicitation of funds for the 1962 Congressional campaigns, AFL-CIO's political arm, Committee on Political Education (COPE), plans to build a cash reserve within the next two months that will be impressive to those segments of Congress which have ignored Labor's wishes thus far. Wanted by the labor groups are higher — and longer — unemployment compensation, retraining (at Federal expense) of workers displaced by automation, medical care through additional Social Security levies. These three are "tops" on the Labor list of "must" legislation. COPE officials privately say if they can raise a $1 million fund by next January, Congress will be more "amenable" to their wishes.

WASHINGTON SEES:

The necessity for military action in Viet Nam mounts daily as the Communist guerillas, well-trained and excellently equipped, continue their attacks on the little southeast Asian republic.

Military men here are tight-lipped on the subject, but quietly spur preparations for conflict. Threatened along with Viet Nam is Saigon, where the Reds have twice tried to assassinate our Ambassador. Loss of the two would mean a complete victory for the Reds in southeast Asia.

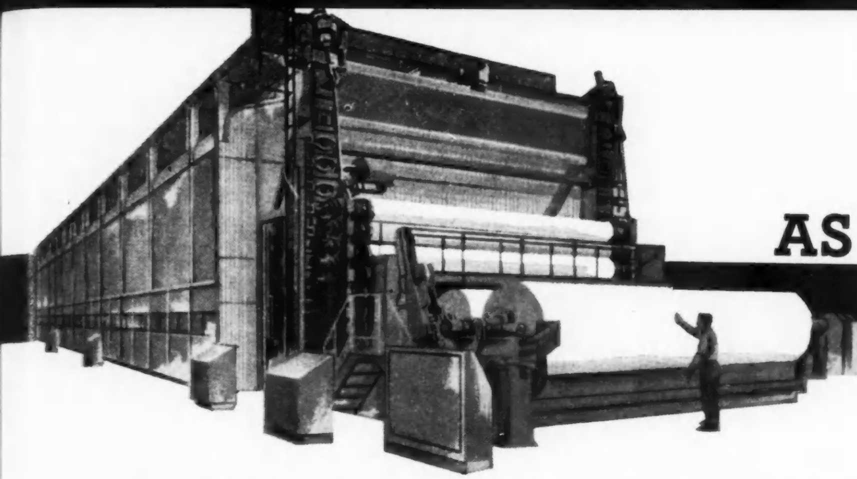
Even if other Asiatic nations join us in military action, we would have to supply a large portion of the fighting man-power as well as arms for those allied with us. In the background is a Red Chinese army of perhaps 1.5 million "volunteers." It could well touch off World War III—and that is the Red Chinese aim, according to informed sources here.

The decision will be one for President Kennedy after he receives the personal report of General Maxwell D. Taylor, his Chief Military Advisor who has been studying the situation on the ground. The situation looks grim, but General Taylor has said nothing for publication, and will not until after his conference with the President.

The Viet Nam and Laotian situations are part of a carefully planned Red pattern to weaken our ground forces in Europe — the Berlin area in particular.

REPUBLICAN National Committee has high hopes this year. They talk little, but fact remains they hope to capture the New Jersey governorship and two southern Congressional seats this fall. In Texas, the GOP expects to elect John Goode running against liberal Democrat Henry Gonzales. There is the possibility that former President Eisenhower will make a personal appearance in behalf of the Republican candidate. In Louisiana, the GOP candidate is Charlton B. Lyons, Sr., outstanding Shreveport oil executive and civic leader who last year abandoned the Democratic Party for its sponsorship of a "blueprint for totalitarianism." The two southern elections are regarded as indicative of a hope that the GOP can recapture the House next year. As in the case of the Texas race, Mr. Eisenhower may speak in behalf of the Louisiana GOP candidate—may definitely point to his appearance in more Congressional campaigns.

CONGRESS, in back-stage maneuvering as well as some polling of grass roots sentiment, plans a wage hike for itself early in the next Session. Historically shy in fixing their own stipend, the Solons are now carefully conning tentative recommendations of the Labor Department to raise the ceiling on top annual salaries of classified Civil Service Workers from the present $18,500 to $31,805, nearly $10,000 more than the present Congressional salary of $22,500 — also, the Congressmen eye an upcoming Administration proposal to hike Cabinet officers to around $45,000 a year. Congress doubtless will have to "go along," especially in view of shortages of scientific personnel. In "going along" the legislators will get theirs.



AS WE GO TO PRESS

Lagging Retail Sales Disturb Federal Agencies, Labor Unions and Private Economists. With an economy (other than Defense) depending mainly upon the movement of merchandise to the consumer, recent drops in retail sales are of concern to the Department of Commerce, Federal Reserve Board and the AFL-CIO. Commerce Secretary Luther Hodges has previously spoken out on retail sales, somewhat condemning retail sales forces for not trying to do a better selling job. The Federal Reserve Board has no comment on this angle, merely notes that such sales are stagnant.

Unions are critical of FRB's attribution of the recent decline in output to strikes in the durable goods industries (primarily autos), and hurricane Carla. According to the unioneers, production of durables is at an all-time high (despite automobile work stoppages). The real problem, according to the unions, is slowing retail sales, thus keeping production lines from "humming." In the background is a trend away from buying toward saving by individuals, as reflected by mounting sales of Government Services "E" and "H" Savings Bonds as well as upped deposits in Federally-guaranteed savings and loan associations.

Early Next Session Problem for Federal Government Will Be Low Pay for Qualified Scientists, Engineers, Physicists. Government pay scales in these fields simply do not match those available in private industry. The graduates in these fields can walk from the campus into private industry at pay ranging up to 75% more than is offered by Government. It may be a part of the President's State of the Union Message, but perhaps there will be a special and urgent message on the subject. Spot checks with several of the government agencies in the fields of research and development reveal shortages of scientific personnel range from 20% to 35% below actual needs. Some of the agencies are overcoming the situation by farming out important defense, nuclear, and electronic research to private research organizations with qualified personnel, paid well above government scales. In these instances, it is not as easy to maintain the tight security checks possible in a government-run undertaking. Previously broached in Congress has been a National Scientific Academy with students getting free tuition and other emoluments, the guarantee of better pay, all with the proviso that they serve a definite number of years after graduation.

Kennedy Budget Deficit Subject of Washington Dispute. Administration Whiz Kids and slide rule experts say it will be only $6.7 billion. This is disputed by one private economic research organization which avers that $9.2 billion will be more nearly correct. Meantime Sen. Hugh Scott, Pennsylvania Republican, an astute analyst of Federal finances, predicts a whopping $12 billion, pointing up only half of that sum was for necessary national defense, the other half for domestic programs which could have been forgone in the interests of fiscal responsibility. It may add up to stiffer taxes early in the next Session of Congress, despite Commerce Secretary Luther Hodges' recent declaration that we can scale down our steeply progressive Federal income tax rates by closing some of our tax loopholes.

One in Four Counties Economically Depressed, Says Area Redevelopment Administration. This, according to Department of Labor experts,

is simply not true. The Department, which kept pretty close tabs on employment and industrial complexes for many years, placed the figure at approximately 100 counties. ARA, created last May 1, and with a "kitty" of $300 million, far more than the original (and carefully studied) 100 counties could use, has arbitrarily increased the figure to 750. It is to be soon followed by intensive ARA efforts to "sell" the 650 additional counties the idea they are really depressed, hence in need of bureaucratic and financial assistance from Washington. Great numbers of the areas are highly resentful of the depressed area stigma. Like all burgeoning bureaucracies the new agency wants as many "clients" as possible for the preservation of bureaucratic jobs — and bigger appropriations in the future. During the last Session of Congress Sen. Harry F. Byrd, Virginia Democrat, long a "watch dog" of Federal spending, forecast that Area Redevelopment would, within a short span of time, be asking as much as $2 billion annually.

Ike Brakes Goldwater's Forward Surge. The ultra-conservative Arizona Senator, who has been making progress toward the GOP Presidential nomination in 1964, is having his march "sabotaged" by former President Dwight D. Eisenhower who is quietly passing the word that, despite his personal affection for the Senator, he regards him as entirely too reactionary to compete with President Kennedy in a 1964 bid for the White House. If the reports on Mr. Eisenhower's views are correct, and they come from good sources, then the Arizonan is "out of the picture," for the reason that the former President is virtually the leader of his Party today, despite Mr. Nixon's claim of titular chieftain.

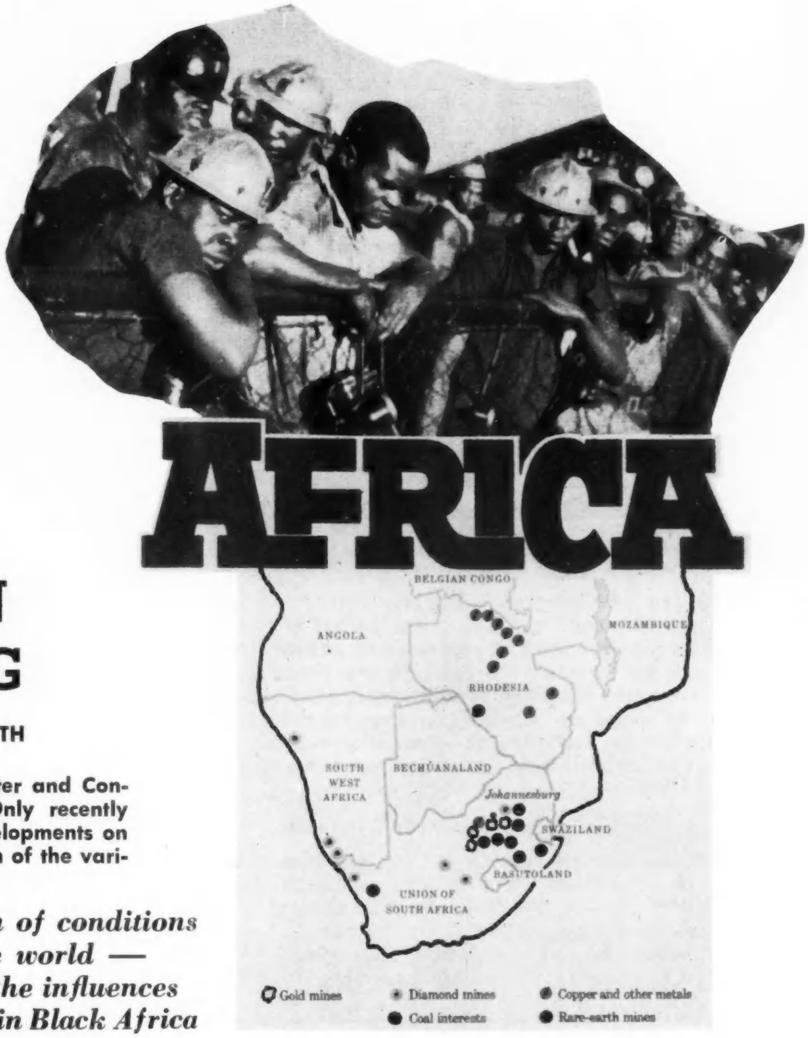
Smart Political Money in Washington Is Now Offering 5-3 on Former Labor Secretary Mitchell to Capture New Jersey Governorship. And some of the money is being offered by "wheels" in the AFL-CIO, which initially sponsored the Democratic candidate, Richard J. Hughes, former Appeals Court Judge. The Labor men have reluctantly come to the conclusion that Hughes is a weak, ineffective candidate — sort of a nonenity. At the outset of the campaign, many AFL unions favored Mitchell "because of his fair dealings with organized labor in his Cabinet post." The Jersey labor split has already cost the Democratic candidate around $80,000 in cash contribution to his campaign — may cost him even more. Educated guesses in Washington are a Mitchell victory of near-landslide proportions.

Washington Observers Discount Chiang's Announced Plans to Attack Red China. The Formosan Generalissimo recently said the attack would take place "in the near future." Military and intelligence forces here say he simply hasn't the muscle. Although he has U. S. jets, artillery, tanks and other field equipment — as well as a well-trained and disciplined army, he lacks the sea power to get to China mainland. Mao Tse-Tung could crush his efforts by sheer weight of manpower that has been equipped by his Russian ally to the West. Back-stage efforts here will be to curb China, lest he set off a war that would need help from the U. S. at a time when we are concentrating almost all-out military efforts in the Berlin area. By treaty, we are committed to the defense of Chiang's republic, but we are not committed to military operations that he may initiate. Our Seventh Fleet continues patrol of the Formosan Straits, but purely as a defensive force, not as one to aid Chiang in an operation not approved by this government.

Peace Corps Troubles Mount. The recent indiscreet remark (on a post card) which stirred up a controversy about "primitive" conditions in Nigeria, and recently sent R. Sargent Shriver, the President's brother-in-law, on an almost world-wide tour to sell and resell PC to the beneficiary nations, has brought the hastily conceived idealistic organization into ill-repute with Congressional forces who will be called upon next year to appropriate for its continuance.

Principal Capitol Hill criticism of the new "good will" outfit is that it was recruited among collegiates who knew absolutely nothing of the diplomatic facts of life, that they were too raw and green for their tasks, and lacked the engineering and professional skills to be of real help to the beneficiary nations. Look for "fireworks" when Congress reassembles in January.

BLACK AFRICA and AMERICAN FINANCING



By SANFORD GRIFFITH

Director of African Study Center and Consultant on African Affairs (Only recently returned from a study of developments on that Continent and the position of the various new states)

— A realistic evaluation of conditions existing in that part of the world — with an inside picture of the influences affecting private investment in Black Africa

BLACK Africa—West and Equatorial—will need a large amount of private financing if Africans are going to move into the modern world in our time. The impression is erroneously held that there has already been a big volume of American financing to Africa. Loans pending have been repeatedly reported, thus creating the illusion of a quantity of loans instead of just one—or none.

Our government grants and loans to Africa, military as well as economic, have been given more emphasis than they deserve. True, considerable American private money in the past has gone into mining and industrial areas in lower Africa. But in many areas, and notably in Black Africa, we have invested very little. Consequently in giving our notions as to what should be done about problems in Africa we have been inclined to assume that we have much more influence than we actually have. In reality we have scant influence in shaping any of the basic economic changes taking place there.

Extent of U.S. Investment in Central Africa

We should consider how small our participation in Black African states has actually been. In the fourteen new states, U.S. government grants and loans have been minute or nil. Although our business people have flocked to busy commercial centers such as Dakar, Accra, and Lagos, there has been much window shopping but few actual financings. **True, three or four large mining or rubber corporations have invested substantial sums. But this has been in the nature of internal company financing as a part of a company's international expansion. Significantly, some of these commitments are covered by U.S. government insurance against possibie political confiscation and might not have been made otherwise. Except in Liberia, our banks have been slow to set up branches in West Africa.**

U. S. Government Aid To African Countries

Country		Total Econ. Aid	Total Military Aid	Grand Total
Ethiopia	1959	$9.7	$5.9	$15.6
	1960	7.4	8.1	15.5
Total	1946-1960	72.8	50.3	123.1
Liberia	1959	13.8	—	—
	1960	11.4	.3	11.7
Total	1946-1960	61.5	1.3	62.8
Libya	1959	28.5	.3	28.8
	1960	32.9	.7	33.6
Total	1951-1960	150.8	2.5	153.3
Morocco	1959	48.2	—	—
	1960	80.9	.7	81.6
Total	1952-1960	194.6	.7	195.3
Tunisia	1959	33.9	1.3	35.2
	1960	57.6	3.7	61.3
Total	1952-1960	136.4	7.1	143.5

substantial increases in production and a rise in the standard of living in the immediate future. But now, some of the new African states have been independent for several years, and the results do not measure up to the promises they made the people.

African leaders have had the notion until lately that Americans with money and know-how would be waiting eagerly for a chance to move in. How is it then that they failed to get together with Washington and with private lenders for the help they need to get productive enterprises going?

Before any money was even in sight some leaders were already worrying about the onerous conditions Americans would impose for their loans. The Russians encouraged this anxiety. Even some of the Europeans, partly for competitive reasons, also warned Africans against this danger. With colonialism now a dirty word, some Africans dubbed us neo-colonialists, implying that along with our financing we would bring in a batch of new colonial attitudes. But African leaders, warning their people against exorbitant loan conditions, were in reality shadow-boxing because few lenders were waiting.

In recent years we have made many brave and optimistic forecasts about American participation in Africa. **In Washington since the inception of Point IV, the concept has been that initial government loans would prime the pumps for a substantial flow of private capital. As late as last year the National Foreign Trade Council emphasized that economic development should be the function of private enterprise and that an expanding volume of capital is available. But so far it has not been available for Africa.**

Waiting for the Horde of American Capitalists

African leaders, in talking of the benefits that would come with political freedom, assumed that their problem mainly would be how to control the foreign entrepreneurs, rather than having to coax them to take part in developing the Continent. Thus African leaders gave their peoples hope of

Rancor from Uneven Division in African Hand-outs

Washington has put Africa last among all continents for grants and loans. Loans have been allocated evidently without concern for the size of the country or the urgency of needs. Loans have usually been considered in Washington as a way to cement friendships. But loans can also serve as a way to generate discord among applicants. This has been the result, if not the aim, of much of our financing, particularly in Africa. The amount that each continent received, in millions of dollars, in the fifteen years to 1960 is shown at the top of the next page.

Capital Spending by U.S. Companies in Africa

(In millions of dollars)

Area	1959			1960			1961e			1962e		
	Mining and Smelting	Petroleum	Manufacturing	Mining and Smelting	Petroleum	Manufacturing	Mining and Smelting	Petroleum	Manufacturing	Mining and Smelting	Petroleum	Manufacturing
North Africa	*	40	*	*	75	*	*	150	*	*	165	*
East Africa	*	9	*	*	7	*	*	7	*	*	12	*
West Africa	11	14	*	16	23	*	36	26	*	46	23	*
Central and South Africa	23	12	9	28	10	10	25	12	9	23	28	10
Union of South Africa	9	a	9	15	*	8	12	*	7	10	*	9
Others	14	a	*	13	a	2	13	a	2	13	a	1
Total	34	74	10	44	115	10	61	195	10	69	228	11

a—Included in area total. e—Estimated. *—Less than $500,000.

Europe	$41,222
Far East	$17,934
Near East and S. Asia	$12,798
Latin America	$ 4,108
Africa	$ 799

Thus Europe received about 200 times as much as Africa. True, some of this was passed down to the African colonies but only in very small proportion. We put twenty times as much into the Far East, and five times as much into Latin America as into Africa. *More glaring is the fact that we put over $2 billion into Communist Yugoslavia and $1.1 billion into Pakistan.*

And a similar disproportion exists in our government aid to specific countries in Africa during the same fifteen year period. For example, Egypt, usually hostile toward us, received $254.4 millions or four times as much as the $62.8 millions that went to Liberia—the only country in West Africa to which we made a substantial grant. Morocco alone received $195.3 millions, or about $20 per capita. Little Tunisia received $143.5 millions, or about $36 per capita. Libya received $153.3 millions or over $100 per capita. In contrast to this some foreign countries in West and Equatorial Africa received practically nothing.

Strategic explanations may exist for the above grants but there certainly were not valid economic or social ones. It is understandable that these disproportions generated more frustrations and resentment than gratitude. It should not surprise us that the Africans fumbled around with mistaken explanations such as our favoring Moslems over others; our racial discrimination against Blacks; and, although calling ourselves a democracy, we have shown an inclination to favor feudal monarchs.

Nearer the mark is the African intimation that we give financial aid more readily to vacillating neutrals than to known friends.

Limited Success in Playing Russia Off Against the U.S.

A routine procedure of the neutrals, including several African leaders, has been to couple requests for grants and loans with the intimation that if we did not come across they would turn to the Russians. The threat has worked in more instances than we like to admit. Getting foreign grants through Congress also works easier when coupled with the Russian threat. **The result is that much of the really humanitarian spending we have made to meet world needs carries a label we ourselves put on it of strategic necessity.**

Many African leaders really did assume that if they couldn't get substantial American aid they could get Russian. Disappointed in Washington, they asked for some of that money the Russians boasted about giving, with no strings attached.

The Results?

Some got credits for Soviet goods that they did not particularly need. Some are discovering that instead of strings there were ropes attached.

Only Egypt and Guinea were favored with really substantial loans. **Most disconcerting of all to the Africans was the discovery that the Russians showed no eagerness to take on the substantial load of lifting emerging African nations into the modern world.**

Money for improved radio transmission and plane communications in areas where the Russians choose to penetrate, yes. Technicians and money to buy and operate Russian planes and to expand airfields, yes. But the Russians have shown little tangible interest in supplying funds for large scale programs for social betterment.

Indeed, with their far flung commitments, the Soviets would not have the means to make a tremendous economic investment in Africa, even if they chose. (Incidentally, we have been inclined to exaggerate the extent of Russian penetration in Africa. Washington has been coaxed into some crash financing in Africa that probably would not have been made if the Russian threat had been seen in its true proportions.)

Failure To Recognize Need for Attracting Private Capital

African leaders are slow to recognize the realities in the world money market situation and their need of private capital if they are going to get their industrial programs under way. For peoples who are shoeless there is no point in talking about a bootstrap operation. Capital for industries must somehow be found, but accumulating domestic capital will necessarily be a slow process extending over many years. To date, neither European nor Soviet capital have been sufficient to raise the people above a bare subsistence level. And apparently no substantial U.S. government funds are going into Africa within the next couple of years. **This then leaves only American private capital as the one vast reservoir of technical skills and money potentially available.** *(Please turn to page 209)*

Leading Companies in Tropical Africa

Uniliver, Ltd.: British-Dutch parent of United Africa Co., Ltd., which has largest business volume in Tropical Africa ($830 million in 1960).

Union Miniere du Haut-Katanga: Belgian mining company operating in the Congo. Now producing a record volume of copper (about 300,000 tons a year). Also has interests in cobalt, zinc, coal and other enterprises.

Compagnie Francaise de L'Afrique Occidentale: Main French trading company in tropical Africa. 1960 volume of sales was $194 million. Does business in most of former French Africa plus the Congo, Ruanda-Urundi, Ghana, Nigeria, Liberia, Sierra Leone and Gambia.

Societe Commerciale de L'Ouest Africain: Large French trading company. Handles industrial equipment and has auto assembly plants. Owns chain of five and ten cent stores.

Pechiney and Ugine: Aluminum producers participating in two African ventures. One is FRIA in which they own a 26.5% interest while Olin Mathieson has 48.5%. Other enterprise is ALUCAM, aluminum smelting plant in the Camerouns.

Royal Dutch-Shell and British Petroleum Ltd.: Market throughout tropical Africa. Export Nigerian oil to Europe and plan a $34 million refinery in Eastern Nigeria.

Societe Des Petroles D'Afrique Equatoriale: French government-controlled oil company with fields in Gabon and former French Congo. Engages in exploration ventures with Socony Mobil and Shell.

BANK STOCKS LOOK GOOD FOR 1962

By PAUL J. MAYNARD

- **Favorable factors and trends to watch re loans and interest rates**
- **Where new mergers stand — how serious is opposition by the Department of Justice**
- **Earnings-dividend outlook — appraising position of banks in the various areas around the country — mergers — bank holding companies — institutions in the best position — with purchases to be carefully timed.**

WHILE third quarter earnings reports of the nation's leading commercial banks showed more declines than gains, the market performance of this group has continued to be strong. Bank stock prices on the average have increased over 30% this year, a far better than average performance, especially in the face of a 5% average decline in net operating earnings in the first nine months. Investors appear to be anticipating material improvement in earnings, and in the general outlook for the banks in the foreseeable future. At this point it seems unlikely that they will be disappointed.

Bank Loans Lagging Behind Business Recovery — But . . .

The volume of bank loans has not yet risen with the increase in general business activity. At the end of September, bank loans to business and commercial firms were $300 million less than they were at the start of the year, compared with a rise of over $1 billion in the first nine months of 1960. However, commercial bank loans historically have tended to lag behind rises in economic activity and seldom increase in the first six to nine months of an upturn. But bank loans usually do rise rapidly thereafter if business activity continues to expand. In 1951, 1955 and 1959—years preceded by a period of rising economic activity—commercial bank loans rose by over $3½ billion and substantial gains in bank earnings also were achieved.

Interest rates have shown a tendency toward firmness as the current year has progressed, but there has been no change in the banks' prime rate on commercial loans since it was lowered from 5% to 4½% in August, 1960. **In the recession from which we now appear to be emerging, short term interest rates did not fluctuate as widely as they did in preceding cyclical swings. At the low point in 1958 the yield on Treasury bills fell below 1%, while this time it has stayed around 2¼%. In the middle of 1958 a sharp rise occurred in long term money**

Our Gift to You!

WHAT TO CONSIDER WHEN SPECULATING and INVESTING IN TODAY'S MARKET

By The Specialist Staff of
The Magazine of Wall Street

OUTLINE OF CONTENTS

NOT FOR SALE
VALUE $5.00

THE YEAR'S MOST IMPORTANT INVESTMENT BOOK

WHAT TO CONSIDER WHEN SPECULATING and INVESTING IN TODAY'S MARKET

By the "Specialist" Staff of
THE MAGAZINE OF WALL STREET

This year . . . we offer a book of outstanding usefulness to you as an investor looking to 1962. You will find the special section dealing with the need for considering technical market action along with fundamentals of particular interest at this time.

Of incalculable value — this book brings you a wealth of information — clear-cut interpretation and analysis of the decisive forces that an investor needs to consider in handling his funds and making new investments today. Highly realistic and judicious — marked by a rare simplicity and common sense approach — it evaluates the significant forces at work today and trends in the making — and tells you what steps to take now and in the year ahead . . . concluding with comprehensive security selections.

★ ***Our demonstrated skill in projecting business-investment-financial trends throughout the years, makes this important book, combined with a year's subscription to The Magazine of Wall Street, an investment service of the greatest dollars-and-cents value in the significant days ahead.***

- Areas of Expansion Abroad through Development of Foreign Markets where High Level Buying Power Exists and Building New Markets in Backward Lands

PART II — *(b) Modifying Influences*

Administration — Where "New Frontier" Philosophy Relies on Theories Rather Than Experience Under Actual Practice in a Workaday World — Administration's Demand for Growth in Face of Over Capacity . . . with Bureaucratic Use of Unrealistic Statistics
- Where Government's Anti-Business Attitude is Bound to Hobble Industrial Growth — Discourage Initiative
- Where Confusion as to Government Policy Stymies Planning by Business Executives
- Killing Profit Motive by Failure to Correct Inequities in our Tax Structure . . . Inadequate Depreciation and Amortization Allowances

Business & Industry — Pyramiding in Duplication of Unnecessary and Shoddy Products — Already Increasing Sales Resistance in Various Areas
- Costly Over-Selling of Mass Markets — Advertising to Point of Satiation — Part it Plays in Higher Prices and Lower Profits . . . Over-Expansion of Easy Credit
- Lack of Proper Program to Guard Against Inroads of Inflation — and Decline in Value of the Dollar

PART III — *A Window Into 1962 for the Investor*

- Essential Facts to Know About Shift and Change in Oils — Building — Autos — Steels — Chemicals — Electronics — Utilities — Metals — Transportation — Aircraft — Textiles — Merchandising — Foods — Consumer Durables — Capital Goods
- Appraising Profits Position of Various Multi-Industrial Companies — Those That are Sound — Where Unsound Diversification Makes Spin-Offs of Acquisitions Necessary
- Resurgance of Old-Established Companies Meeting Challenge of New Age with New Products — Processes — and Specialties . . . Those Still in a Dynamic Position — Where Price of Shares Already Discounts Outlook
- Companies Operating Successfully Abroad Under Variety of Organizational Plans . . . Those Deriving Sizable Earnings and Tax-Free Status from Branch Plant Sales and Profits in Foreign Countries — Listing Selected American Companies Active in the Various Areas
- Evaluating Countries Suitable for Tax-Free or Almost Tax-Free Operations—Where Political-Economic Climate is Growing Too Risky — Where the "Pinch" is Being Felt by Oil and Metals Companies — Where Threats of Nationalization for Various Industries Exist — and in What Countries

PART IV — *Technical and Fundamental Considerations When Investing or Speculating*

Technical Factors — How to Select a Stock Suitable for Investment — or for Speculation — What not to do, Buying on Tips — or on General Market Averages . . . Danger of using Money Brokers for Credit on Shoestring Operations — The Use of Outmoded Ideas not Suited to Current Stock Market
- The Floor Trader in Today's Market — Affect of His Daily Operations on Bid and Ask Prices — Volume — The Influence of Institutional Buying and Selling
- The Strategy of concentrating on Those Issues that can Be Moved Easily under Good Market Sponsorship to Avoid Being Hung Up — Where the Factor of a Small Floating Supply Should Enter your Calculations

Fundamentals — Why Technical Analysis should Precede and Give the Signal for a Study of Fundamentals in Buying, Holding or Selling Individual Stocks
- Why Technical Market Action of a Stock should be Carefully Watched Where Fundamentals give a clue to a change in company Prospects
- How to Avoid Loss by Being Content with a Piece Out of the Middle Instead of Waiting to Buy at the Bottom or Sell at the Top
- The right time to Buy-Hold Convertible Securities . . . Bonds

PART V — *Suggestions for Strategic Investment In 1962*

- *Selected Companies* that have Outstripped their Industries and are Showing Steady or Higher Earnings — Able to Hold their own and Make Growth in the Period Ahead
- *Companies Strong at Home* — With High Level Earnings from Healthy Foreign Operations and Where Future Growth is Indicated
- Securities to Meet Various Objectives — For Investment of: $10,000; $25,000; $50,000

C

Statistical Data on Leading Bank Stocks

	Total Deposits 9/30 1961	Total Deposits 12/31 1960	Loans & Discounts 9/30 1961 (Millions)	Loans & Discounts 12/31 1960 (Millions)	U.S. Gov't. Securities 9/30 1961	U.S. Gov't. Securities 12/31 1960	Book Value Per Share	Earnings Per Share 1st 9 Months* 1961	Earnings Per Share 1st 9 Months* 1960	Indicated Current Dividend Rate	Recent Price	Dividend Yield
Bank of America (San Fran.)	$N.A.	$10,805	$N.A.	$6,700	$N.A.	$1,782	$25.73[5]	$N.A.	$N.A.	$2.10	69	3.0%
Bank of New York	510	606	286	295	113	99	212.58	14.98	15.65	14.00	395	3.5
Bankers Trust New York	3,064	3,032	1,639	1,567	676	672	38.21	2.78	2.98	1.97	70	2.8
Chase Manhattan New York	7,849	8,143	4,248	4,336	1,619	1,779	51.17	3.70	3.95	2.50[1]	82	3.0
Chemical Bank N. Y. Trust Co. ...	3,901	3,898	2,243	2,234	594	569	50.32	3.82	3.60	2.60	86	3.0
Continental Ill. Nat. Bk. (Chi.)	2,837[3]	2,482	1,482[3]	1,436	564[3]	527	N.A.	N.A.	N.A.	4.00	163	2.4
First National Bank of Boston	1,650	1,615	991	913	358	392	58.25	4.64	4.69	3.00[1]	108	2.7
First National of Chicago	2,760	2,776	1,607	1,726	797	540	41.88	N.A.	N.A.	1.60[1]	93	1.7
First National City Bank, N.Y.	7,604	7,770	4,059	4,260	1,920	1,524	64.29	4.21	4.49	3.00	104	2.8
First Penna. Banking & Trust	1,129	1,119	659	645	178	127	42.15	1.52[1]	1.57[1]	1.20[2]	35	3.4
Irving Trust, New York	1,941	1,999	976	959	534	384	28.65	2.23	2.59	1.60[1]	53	3.00
Manufact. Hanover Trust N.Y.	5,073	4,818[4]	2,312	2,368[4]	1,232	996[4]	38.40	2.68	2.84	2.00	60	3.00
Mellon National Pittsburgh	1,927	1,854	928	1,055	710	509	116.12	6.78	7.16	4.00[1]	172	2.3
Morgan Guaranty Trust, N. Y. ...	3,775	3,646	2,286	2,352	1,121	450	75.07	4.81	5.30	4.00	133	3.0
National Bank of Detroit	1,782	1,904	591	659	566	569	47.57	3.57	3.78	2.00[1]	78	2.5
Republic Nat. Bank of Dallas	993	1,012	606	585	218	193	27.68	1.78	1.76	1.40[1]	86	1.6
Security-First Nat., Los Angeles ..	3,434	3,284	1,679	1,647	1,170	1,055	37.35	2.87	3.03	1.60[1]	88	1.8
Wells Fargo Bank Amer. Tr.	2,538	2,449	1,414	1,412	720	635	40.22	2.75	2.98	1.60[1]	80	2.0

*—Net operating or indicated earnings.
N.A.—Not available.

1—Plus stock.
2—After 2 for 1 stock split stockholders vote 11/6/1961.
3—Reflects merger of City National Bank & Trust Co. effective 9/5/1961.
4—Pro-forma as of 9/30/1960 to give effect to Hanover-Mfg. Trust Co merger 9/11/61.
5—As of June 30, 1961.

rates but such a rise has not occurred in 1961.

Credit Conditions Could Tighten

Since interest rates have not gone down as far or as fast during the recent dip as they did in preceding recessions, it is not expected that they will rise as sharply. However, as business activity expands, the demand for credit will increase and tend to tighten the money market. This should bring about a rise in the bank prime rate some time next year—perhaps back to the 5% rate which prevailed from September, 1959, to August, 1960.

Because of the relatively high unemployment rate of over 6%, and because of over-capacity in the productive facilities of some industries, the Administration has continued to keep the amount of available credit high. **However, if there are signs that a boom is developing it will be necessary for the Federal Reserve to tighten credit, forcing interest rates up. The international situation, particularly as it relates to the balance of payments and gold problem, also affects interest rates in this country. With the higher interest rates now prevailing in money centers abroad, it will be essential to keep our rates sufficiently attractive to prevent any drastic outflow of funds from the United States.**

Each of the four post-war recessions has brought about an increase in the total amount of earning assets of the banks—chiefly in the form of investments. This has been a by-product of the easy credit policies adopted by the Federal Reserve money managers to stimulate business and end the recession. As interest rates have risen in the ensuing recovery period there has been some shrinkage in the volume of available bank credit, but the application of the higher rates to a still relatively high volume of earning assets has spelled increased earnings for the banks. This is what now appears to be in prospect for them.

Favorable Dividend Action

Recent dividend action of several of the major banks suggests optimism on the part of management with respect to future earnings prospects.

First National Bank of Boston, for example, recently announced a proposal to pay a stock dividend of 14²⁄₇% on November 15, 1961. Simultaneously it was announced that the present $3.00 dividend rate on the bank's common stock would be maintained on the new shares. This is equivalent to cash payments on the present shares of $3.43.

Another recent development was the announcement by **First Pennsylvania Banking & Trust Co.** of a proposed 2-for-1 stock split coupled with an increase in the effective cash rate on the old shares from $2.30 to $2.40 per annum and a 1-for-12 subscription offer.

Also, **Republic National Bank of Dallas** in recent weeks has announced a 2% stock dividend and **Bank of America** has proposed a 5% stock dividend and a 1-for-16 stock offering. It is expected that dividend increases (either in stock or in cash) on other bank stocks will be forthcoming at meetings this year and in 1962.

Higher Price/Earnings Appraisals

The rise in bank stock prices which has taken place to date in 1961 has increased the average price-earnings ratio at which these stocks sell, from about 13.5 times at the start of the year to a current average of around 18 times. The latter, however, is still under the 23 times earnings ratio at which other high quality equity groups such as the electric utility stocks and the Dow Jones Industrial Average are currently selling. While the increase in the price of bank stocks places them in a higher price-earnings area than they have occupied for many years, they are still not high in relation to other quality

equity groups. In view of their strong current position and the likelihood that substantial earnings gains are in prospect over the next few years, the bank stocks have become the favorites of many large pension funds, trust companies, mutual funds and other institutional investors.

Activity On The Merger Front

Merger developments, coupled with uncertainties created by intervention by the Antitrust Division of the Department of Justice, also have played an important role in the field of bank stocks this year. Among the New York City banks, the **Manufacturers Trust**-Hanover Bank merger and the proposal of **Morgan Guaranty Trust Company** to form a statewide bank holding company with six up-state banks, have stirred the imagination of investors concerning future prospects for these organizations. Also, the proposal of **Bankers Trust** to form a holding company with County Trust Company of White Plains, while vetoed by the New York Superintendent of Banks, may yet be revived.

Other significant developments among the New York banks have been the merger proposals of **First National City Bank** to acquire National Bank of Westchester, of **Chemical Bank New York Trust Company** to acquire Long Island Trust Company and of **Chase Manhattan Bank** to merge with Hempstead Bank of Long Island.

The Chemical and Chase plans have been approved by the New York Superintendent of Banks and now await action by the Federal Reserve's Board of Governors. If this approval is obtained, and if the Department of Justice does not oppose them, a long step toward expansion into the rapidly growing suburbs will have been accomplished by the New York City banks. Some progress already has been made in the opening of new branches in Nassau and Westchester by such banks as First National City, Chase Manhattan and Chemical Bank New York Trust Company. However, the proposed mergers would greatly accelerate the broadening of geographic coverage of the New York banks. If they become effective, the year 1961 may well mark a most important milestone in the history of the New York City banks.

• The proposed new giant bank holding company to be known as the **Morgan New York State Corporation** would be the largest in the country, with total deposits of over $5 billion dollars and with constituent banks in Buffalo, Rochester, Syracuse, Albany, Utica and Binghamton combining with the Morgan Guaranty Trust Company of New York. This would change the pattern of the banking structure of New York State, increasing the effective utilization of both managerial and capital resources of the state's banks.

As a competitor of **Marine Midland Corporation,** now New York State's only major bank holding company, the new banking group would bring more banking services of all types as well as expanded lending ability to the upper New York State area where the rate of deposit growth has been faster than in New York City.

Opposition By Department of Justice

► The greatest threat to the merger movement among banks throughout the country has arisen from antitrust suits initiated by the Federal Government through the Department of Justice in opposition to several proposed mergers. Invocation of the Sherman Antitrust Act against proposed bank mergers is something new.

• It has heretofore been accepted that approval by state bank supervisory authorities, by the Board of Governors of the Federal Reserve System and by the Comptroller of the Currency (where national banks are involved) provided sufficient regulatory control over bank mergers. The new theory is based on the premise that bank mergers genrally violate the Sherman Antitrust law if they, in the opinion of the Justice Department, "tend to reduce competition."

The principal test case of the Justice Department's right to intervene in bank mergers is now in the courts in Philadelphia, where the proposed merger between the Philadelphia National Bank and the Girard Trust Corn Exchange Bank is being contested by the Justice Department, even though the merger was approved by the Comptroller of the Currency.

• Two other cases involving court intervention by the Department of Justice to over-rule approvals by the Comptroller of the Currency and the Federal Reserve Board are still pending in the courts, although the banks have won the first important round in defeating injunction applications and in actually effecting their mergers. One of these cases is in Chicago where **Continental Illinois National Bank and Trust Company** recently merged with City National Bank and Trust Company. The other case is in New York where **Manufacturers Trust Company** and the **Hanover Bank** achieved their merger despite a last minute attempt by Justice Department lawyers to halt it on the grounds that the merger might produce a "tendency toward lessening of competition."

• The conflict between two agencies of the government on the effect of a merger on banking competition is found in the Manufacturers-Hanover case. Here the Board of Governors of the Federal Reserve System approved the merger because it would increase competition. The obviously less qualified lawyers of the Justice Department (men with legal backgrounds but lacking the banking experience of members of the Federal Reserve Board) found that the merger would reduce competition.

• The beneficial effect on competition of the movement of New York City banks into the suburban areas around the city was illustrated recently when Franklin National Bank, the largest of the Long Island banks, reduced its interest rates on instalment loans to match the rates charged on such loans by the major New York City banks which are now moving into the Long Island area.

Efforts To Solve Various Banking Problems

In addition to the legal problems created by the law suits brought by the Department of Justice, the banks have had to contend with a number of other problems, chiefly operational in nature. Included among these are:

• The tendency of large corporations to reduce their deposits in order to obtain an interest yield by investing in Treasury bills.

• The need to adopt more liberal interest payment plans on savings accounts in order to meet the competition from other banks and from savings and loan associations. *(Please turn to page 208)*

TEXTILE COMPANIES GET "BREAK" FROM THE GOVERNMENT

By JAMES A. NEWMAN

A Rare and First-Rate Story on . . .

- **All-round significance of concessions on depreciation to the various producers of textile fabrics**
- **What possibilities, if any, for textile machinery makers?**
- **The bleak record of growth for the textile industry and the reasons therefor — and now what prospects for the future?**
- **Outlook for the individual companies — those in the best position — where static — where declining**

A NEW tax concession offered to the textile industry in the form of increased depreciation apparently has come at a time when the industry is just recovering from another difficult business cycle and when textile machinery producers are offering new technological developments. Thus, this timely plan should have some important effects upon both the textile industry and machinery and machine tool producers who are hopeful that such a proposal will be reflective of a new attitude for their equipment as well.

The New Depreciation Schedule

According to the Internal Revenue Service, textile machinery depreciation schedules will be changed from a 25 year life to a 15 year life and in some cases 12 years. The added cash flow that will result from a heavier depreciation write-off will of course result in tax savings equal to one half of the new depreciation. It is hoped that this tax savings will spur the modernization program already underway in the industry. Leading experts have greeted the new plan with enthusiasm predicting great changes through automation.

Industry has long favored heavier depreciation schedules while the New Administration has favored tax credits on new capital spending. The Government proposal offers a compromise which includes a flat 8% credit for all capital outlays plus a revised depreciation schedule. If these plans are carried through to most industries then the effect would be to:

1. Reduce the cost of new capital equipment
2. Increase corporate cash flow
3. Increase capital spending and spur plant modernization

Textile Machinery

One of the most difficult problems facing textile machinery producers has been their inability to sell new textile innovations to their very cyclical customers. Thus, it has been estimated that over 75% of the textile machinery in use today is over 10 years old with a great deal of that total over 25 years old. With an unusually high percentage of obsolescent machinery in operation there is a large demand or need for new equipment. This demand exists despite the fact that important technological developments have been offered and in part accepted by the textile industry. Draper with its new shuttleless loom and Leesona with its Unifil loom winder are examples of the more successful products.

In each instance however machinery makers have been able to enjoy only temporary prosperity and earnings have been falling from peak 1960 levels. Other textile producers have sought to diversify in order to reduce the cyclical impact of the textile industry on their business. Crompton and Knowles, the leading producer of box multiple shuttle looms, has taken an important interest in dyes, chemicals and packaging machinery. Whitin, the leading producer of preparatory and spinning equipment has acquired a stake in the printing machinery business through its wholly owned subsidiary American Type Founders Co. And finally, Leesona, has been expending considerable sums of money on Leesona-Moos division which is engaged in electronics research.

► The new depreciation program of course will be helpful to these companies by reducing the effective prices of their products and by stimulating purchases of equipment which should have been bought several years ago. For 1961-62, however, most capital budgets are set and with long lead times common in the industry, it is doubtful that the impact of new spending will be immediate. Therefore, we would not be too anxious to buy machinery shares on this recent wave of enthusiasm shown by investors.

The Broad Advances in Textile Manufacturing

The textile industry is constantly changing, both geographically and in the development of new fibers, blends and uses. The consumer has received the benefits of increased efficiency and more and better fabrics. All this would indicate a vigorous growing industry, but statistics show that the industry is facing hard times ahead, perhaps harder and hungrier than recent memory can be forced to recall, unless the government takes even more positive action than that recently announced.

• **New synthetic fabrics have brought about a decline in the use of historical fibers, i.e., cotton and wool, linen and silk. It is even reasonable to assume that rayon, the oldest of the synthetics, would suffer at the hands of the new "miracle" fibers. But it will come as a surprise to find that per capita consumption of all textiles has been declining in the United States. For example, average per capita consumption in 1953-54 was about 37.8 pounds, while in 1960 it was about 36.1 pounds. There are many long-term reasons for this decline; paper and plastic products have made an impact on cloth consumption; lighter-weight, longer-wearing fabrics have been developed; and our mass exodus to Suburbia has brought about demand for more casual and durable styles of clothing.**

Reasons for Bleak Growth Position

In 1953 the Index of Textile Mill Activity by the Federal Reserve stood at 110, in 1960 the index had risen only to 121 for an increase of 10%. In 1953 the index for all manufacturing was 127.2 and had, by 1960, increased 29% to 164. Thus, the industry has been hard pressed to show any growth. Behind the figures lie a story that is rather bleak. As mentioned above, per capita consumption has decreased and total consumption has remained static.

Following World War II the taxes this industry and others paid to the government in part went to help re-establish industry in the war ravaged nations. The story is, of course, well-known. Starting from nothing, U.S. dollars, acquired at no cost, helped purchase the latest in machinery and American technical know-how. Lower labor costs, highly efficient plants, the latest in machinery, favorable tariff rates each contributed to reconstruct, among others, a thriving textile industry abroad which can produce as much as our own industry at considerably lower prices. And looking to the future, we are now determined to help the underdeveloped nations. It should be pointed out that one of the first industries to be established in a new economy is a textile industry, and once having helped these underdeveloped nations we are more or less obligated to give them a "most favored nation" tariff treatment.

• This *intense competition* has not only reduced our markets, but put prices under severe pressure. Using the 1947-49 period as basis 100, the index of Textile Wholesale Prices indicates that in March, 1961, prices were 94.7 of the 1947-49 level. A year earlier, the index stood at 96.3%. Going back even further, the 1953 index showed a price level of 97.2%.

The Diversified Companies

Lowenstein—While sales have trended upward, earnings have been affected by the cyclical supply/demand factor and by changes in raw material costs and keen competition. The company processes raw cotton and synthetic fibers, concentrating sales to manufacturers of apparel, handkerchiefs and household articles. The dividend was reduced earlier this year in line with the lower earnings, but can be expected to be increased as the earnings pick up. The company also sells finished goods such as percales, gabardines under well known brand names. In 1960, the company entered the glass fabrics field and formed factoring subsidiaries. Anticipated recovery should benefit the company but appreciation potential is limited to modest cyclical recovery.

J. P. Stevens—Earnings have been more stable and have shown one of the best long-term growth records in the industry. Stevens is one of the largest and most diversified textile manufacturers. The company also enjoys a large solid position as selling agent for other textile mills, and does a large factoring business. The company has been employing more effective cost control methods but, obviously, is still tied to the basic textile cycle. Stevens recently acquired a stock interest in a French producer of glass fibers and synthetic fabrics giving it entrance into the Common Market.

Although earnings will be greatly lower than last year, the dividend should be maintained, especially with higher earnings in prospect for the next year, and affords an attractive yield at present prices.

Leading Textile Companies

	Net Working Capital 1959 (Millions)	Net Working Capital 1960 (Millions)	Earnings Per Share 1959	Earnings Per Share 1960	Cash Earn. Per Share 1960	1st 9 Months Earnings Per Share 1960	1st 9 Months Earnings Per Share 1961	Indic. 1961 Div. Per Share*	Recent Price	Div. Yield	Price Range 1960-61
American Enka Corp.	$14.9	$24.6	$4.31	$.51	$6.64	$.36	$2.38	$.80	38	2.1%	39¾-17⅜
American Viscose	79.6	71.1	2.98	1.45	4.74	.90	1.04	2.00	57	3.5	63 -32⅞
Beaunit Mills	31.4	32.7	3.12	1.60	4.76	.51[2]	.35[2]	1.00	22	4.5	25⅝-15⅛
Bigelow-Sanford, Inc.	32.2	33.5	1.73	1.28	3.63	.93[2]	.81[2]	.80	19	4.2	21⅝-11¾
Burlington Industries	235.3	260.1	2.72	2.81	5.04	2.31[3]	1.27[3]	.80	21	3.8	24′ -16⅜
Cannon Mills	103.0	108.7	5.04	6.49	8.17	2.73[2]	2.70[2]	3.00	73	2.7	83 -55
Celanese Corp.	80.9	85.9	2.44	2.07	5.13	1.05[2]	.83[2]	1.20	35	3.4	40⅜-21
Cone Mills	64.4	64.6	1.47	1.03	2.46	.81[2]	.34[2]	.80	14	5.7	17⅜- 8¼
Dan River Mills	65.4	62.1	1.81	1.60	3.07	.81[2]	.52[2]	.80	14	5.7	15¾-12¼
Firth Carpet	5.9	4.0	1.01	d3.36	—	d.48[2]	d1.72[2]	—	7	—	13⅞- 6⅛
Lowenstein (M.)	105.3	105.7	1.69	1.81	3.66	1.36[2]	.34[2]	.60	14	4.2	20¼-14′
Mohasco Industries	41.4	36.5	3.03	.87	1.72	.46[2]	.23[2]	.40	10	4.0	15¼- 7⅝
Pepperell Mfg.	28.7	29.9	7.19[1]	6.62[1]	10.54	N.A.	N.A.	4.00	84	4.7	85′ -60
Reeves Bros., Inc.	17.5	16.4	1.94[1]	.20[1]	1.66	.05[5]	N.A.	.50	20	2.5	28½-15½
Stevens (J. P.) & Co.	144.0	144.8	4.52	3.65	6.46	2.92[4]	1.44[4]	1.50	32	4.6	33½-22¾
United Merch. & Mfg.	116.7	144.0	2.41[1]	1.63[1]	2.73	N.A.	N.A.	1.00	22	4.5	24¼-16¼

Textile Machinery Manufacturers

	Net Working Capital 1959 (Millions)	Net Working Capital 1960 (Millions)	Earnings Per Share 1959	Earnings Per Share 1960	Cash Earn. Per Share 1960	1st 9 Months Earnings Per Share 1960	1st 9 Months Earnings Per Share 1961	Indic. 1961 Div. Per Share*	Recent Price	Div. Yield	Price Range 1960-61
Crompton & Knowles Corp.	11.6	12.7	1.72	2.61	3.42	1.57[2]	1.60[2]	1.00	30	3.3	38¾-16
Draper Corp.	21.9	23.0	1.84	2.82	4.52	1.61[2]	1.39[2]	1.40	36	3.8	37½-23¼
Leesona Corp.	9.8	9.6	1.77	3.11	3.85	1.66[2]	.98[2]	.50	34	1.4	63¼-31
Whitin Machine Works	20.2	21.9	.83	5.63	7.77	3.56[2]	1.20[2]	1.00	28	3.5	37¼-20¾

*—Based on latest dividend rates.
d—Deficit.
N.A.—Not available.

1—Years ended 6/30/1960 and 1961.
2—First 6 months.
3—9 months ended June 30.

4—9 months ended July 31.
5—1st fiscal quarter ended Sept. 30.

TEXTILE COMPANIES

American Enka: Large factor in conventional rayons increasing stake in nylon. Earnings are improving but will not match cyclical peaks of former years. Readjustment will take time. **C3**

American Viscose: Largest producer of rayon and acetate in United States. Other products will be important to offset decline in rayon. High liquid asset value in Monsanto stock (13.2%). Company has no debt. **B3**

Beaunit Mills: Important rayon producer for textile yarn, moving into polyester and polypropylene, not as dependent on tires (only 18% of business). Recovering with general textile cycle. **C3**

Bigelow Sanford: Second largest carpet maker has been diversifying. Plant relocation could help but earnings are still erratic. Crestliner Boat division showed some growth although 1960-61 was poor year for industry. **C3**

Burlington Inds.: Leading company in the industry reflects all problems, shows slightly more stable earnings than most. Main appeal of income has been hurt by an erratic dividend policy, which could improve again in 1962. **B3**

Cannon Mills: Important trade name for linens and towels, relatively stable earnings, steady dividend. Company faces delisting from NYSE for not filing proxy information. **B2**

Celanese: Largest producer of acetate fibers building large chemical and plastics capacity. 40% of business in non-textiles showing better growth. Deserves better appraisal than group. **B1**

Cone Mills: Engaged in active diversification away from cotton into polyurethane foam, chemicals and dyes. Earnings have shown weakness, new efforts should help. **C4**

Dan River: Important in yarn dyed goods, also factoring and commission sales. Outlook improved by recent price increase. Improved earnings still some time away. **C3**

Firth Carpet: A major producer with an erratic record. Plans to merge with Mohasco. 1½ Firth for 1 Mohasco. Stockholder group trying to block the deal. **C4**

Lowenstein: Increasing sales volume, but cyclical factors have affected volume. Company is a processor of cotton and synthetics. Dividend was cut this year on poor earnings. Could improve with the cycle. **C3**

Mohasco: Largest carpet maker. Tax-loss carry forward has been exhausted which will restrict already declining 1961 earnings. New materials including acoustical fabrics have interesting potential. Merger developments are in progress (see Firth Carpet). **C4**

Pepperell Mfg.: One of the more successful linen producers. Good management effected cost controls and maintained earnings. Steady dividend is most attractive feature of this stock. **B2**

Reeves Bros.: Has been diversifying since 1953 and is now engaged in polyethelene and polypropylene in addition to textile fabrics. New laminated fabrics could become important. Earnings will recover with cycle. **C3**

J. P. Stevens: Perhaps the best of the diversified producers. Although subject to wide swings in earnings, the company has maintained dividends affording an attractive yield. **B3**

United Merchants and Mfrs: Owns the huge Robert Hall retail organization in addition to factoring plastics and textiles. Earnings have shown some stability and dividends appear secure. **B2**

TEXTILE MACHINERY MANUFACTURERS

Crompton and Knowles: Has diversified in packaging machinery which has helped to cushion cyclical swings. Textile machinery business has held up through constant machine improvement. **B2**

Draper: Has had tremendous success with its new shuttleless loom. Machine to handle fine fabrics, however, is still some time away and coarse goods are already reaching machine saturation. 1961 will show an earnings decline. **B4**

Leesona: Has received good response to new Unifil loom winder. Backlog still high but earnings tapering off. Research activities may have effect on long term future earning power but will not stem the decline in 1961. **C4**

Whitin Machine: One of the largest producers in the textile machinery. Printing machinery also important. Earnings are slowing from higher 1960 levels. Backlog still strong. **B4**

RATINGS:
A—Best grade.
B—Good grade.
C—Speculative.
D—Unattractive.

1—Improved earnings trend.
2—Sustained earnings trend.
3—Earnings up from the lows.
4—Lower earnings trend.

United Merchants—Factoring and Finance operations, plus the Robert Hall chain of apparel stores, have reached a point where they now contribute about one half of UMM's earnings. The plastics division, and entry into the polyester resin industry will further help to diversify and stabilize earnings.

Being an integrated company, the prospects both for growth and some defensive qualities are attractive although overall results will still be dominated by cycles. With the dividend well maintained, long term commitments are worthwhile.

Reeves Bros., an integrated textile manufacturer, has been following a diversification program since 1953 and now is in microporous fabrics, polyethylene and polypropylene fibers and coated products. Reeves earnings have been particularly subject to lower prices for cotton textiles, however, better market conditions should begin to appear soon, and products recently added should begin to carry through to net income.

Rayon and Synthetics

Cyclical problems are also evident in the rayon and acetate business where new synthetics have made substantial inroads. Originally rayon replaced cotton in auto tires and silk in fabrics. As an innovation this synthetic grew to become a major segment of the textile industry until new synthetics became available after the war. Nylon for example has made significant penetration in the replacement tire field while various brand name fibers have become popular in the fabric field. Consequently, rayon producers have spent sparingly on new capacity or machinery while increasing outlays in new areas such as polypropylene.

In the major companies, we believe that a long period of readjustment lies ahead. Each of the leading rayon producers are seeking new markets for new products but the trend away from rayon will cause at best a standstill until new products begin to dominate the picture.

For the investor, therefore, the rayon industry offers at best only cyclical opportunities for profits and future growth only after current problems are overcome.

American Enka, large producer of rayon, and an increasing factor in the production of nylon, necessary to offset the problems of rayons, has recently begun to enjoy sharply improved earnings. These gains are primarily due to better markets for rayon textile yarns, an improving outlook for the auto industry with related increased rayon tire demand, and a better price structure for its products. Although earnings still have not returned to former levels of satisfactory return on investment, the outlook is improved as new products are being developed to utilize present capabilities and equipment. However, it will involve a considerable period of time before the full readjustment to new types of materials has been completed.

American Viscose, the largest producer of rayon in the United States, and also one of the leading acetate producers, is moving into other synthetics to offset the decline in rayon consumption. Introduction of "Avicel"—a new microcrystalline cellulose that is a non-caloric bulk food substitute may assist earnings in the future. Jointly owned affiliates with other companies and 13.2% ownership in Monsanto Chemical will further contribute to earnings.

With no long-term debt, 1960 current ratio of 4.8-1, net working capital in excess of $71 million, cash flow of about $3.30 per share, and further prospects of the company repurchasing its own shares in the open market, the long-term potential appears better than the industry average.

Beaunit Mills, another important producer of rayon textile yarn, has been experiencing a decline in operations, although the company is now moving into the newer polyester and polypropylene fibers, but a long period of readjustment lies ahead. Improvement in the textile cycle should benefit earnings this year as both rayon and conventional fiber prices have been showing greater relative strength than in recent months. Only 18% of sales comes from rayon tire yarns so Beaunit is not as heavily dependent on the auto cycle. The company is working on the development of a polyester tire cord and expects to be able to determine within a few months its feasability. It is, however, expected to compete favorably with nylon, but at this early stage must be regarded as a speculation.

Celanese, largest producer of acetate fibers, has been increasing in importance the non-textile sales, which now account for about 40% of total sales of the company. Earnings have shown better growth than most of the others in the industry, but the 1960-61 economic slump affected earnings. As chemicals assume a greater percentage of sales the stock will sell more in line with the chemical equities, and higher multiples than those accorded the textile industry will be warranted.

The Cotton Manufacturers.—Athough sales in the cotton industry have remained static in the past decade there is considerable credit due the industry which has done its best to maintain cotton as an important fabric. Despite continued penetration by synthetic fibers, cotton producers have managed to hold on to a large part of their market. Government price supports for domestic producers has kept cotton prices high in the face of increasing foreign competition thereby causing an additional burden. As a result it is not likely that cotton manufacturers will be candidates for a wave of modernization. The added depreciation allowance offered will do nothing to correct the basic problems caused by Government price supports.

Cannon Mills, well known for its sheets, pillowcases and towels under the Cannon label has demonstrated relatively stable earnings with a mild long term uptrend, a fact which sets it apart from its competitors. Prices have recently been increased on a number of lines, which will offset the increased costs brought about by an increase in the cotton support price and by the recent passage of the new minimum wage law.

Cone Mills, also a well known name in the cotton textile field, has been following an active diversification program through new ventures in polyurethand foam, and chemicals and dyes. Doubtless, the company will continue to seek new approaches to profits in an effort to end the *(Please turn to page 209)*

OUTLOOK FOR FINANCE INDUSTRY UNDER TIGHTENING CREDIT

— And the position of the Individual Companies in the three Categories

By JONATHAN PIERCE

***NOTE:** Like bank stocks, the segment of the finance industry known as the finance companies also has enjoyed substantial gains in market quotations this year. Mergers, acquisitions, stock splits and stock dividends have been numerous in this field to date in 1961. With the outlook for substantial improvement ahead in 1962, and with price-earnings ratios still at or under 20 times, this group continues to hold attraction for investors, relatively good values depending on developments and the outlook for credit and interest rates. This study spotlights the companies in the best position.—EDITOR*

THE finance industry is not one industry. Rather, it is a composite of three closely knit industrial groups: the sales finance industry (mainly auto financing), the personal loan industry and the commercial finance industry. Each possesses its own growth potential, its own problems, and its own opportunities for investment. Thus, to judge the investment worth of any individual issue on the basis of a comparison to the composite industry group is an error. This point is easily illustrated.

In 1955 new extensions of installment credit rose \$8 billion above the previous year and amounted to 15.2% of total personal consumption expenditures; in 1959 new expenditures were \$7.6 billion above the previous year equalling 15.6% of consumer purchases. Composite industry figures appear alike. They are, however, significantly different.

The majority of the 1955 expansion—when new passenger car registrations totaled 7.2 million—was in automobile paper. In 1959—a 6 million auto year

—about 56% of the total increase was in types of loans other than automobile paper.

Obviously, the value of the shareholders' equity in the sales (automobile) finance companies in 1955 and 1959 was quite different. An examination of 1961 composite industry figures reveals further structural changes.

Scanning the multitude of publicly-owned finance companies, we find some companies that are involved solely in sales financing or solely in personal loans. Most major companies outside the commercial finance area, however, are involved in both forms of consumer credit—sales financing and personal loans. Thus, in analyzing the finance operations of a finance company we separate sales financing from personal loans to determine the effective contribution of each to the company's growth and earnings, but we shall discuss them jointly as we begin an examination of consumer credit.

Consumer Credit

What has happened to the earnings of the consumer credit finance companies this year when people stopped expanding their credit lines?

Why, if consumer credit varies with the business cycle, do not the earnings of consumer credit companies exhibit cyclical patterns?

The truest reflection, in any industry, of economic conditions at the consumer level is found in the consumer credit industries. In fact, the key determinants of their activities are the economic factors of employment levels, attitudes toward saving and consumption, interest rates, and levels of personal income.

From February, 1961 (the base of the current recovery) to August, 1961, consumer credit did not expand, despite new record levels for disposable income. In fact, as late as July, installment consumer credit—the major portion of all consumer credit—continued to contract.

• Why it did contract in the 1961 February-August period may be explained by three factors:

1. The high unemployment rate and the lack of job security caused many individuals to repay their debts rather than expand them.
2. Balance-of-payment problems forced the government to maintain artificially high money rates. Really "cheap money" designed to stimulate the economy never actually appeared.
3. Defense spending and transfer payments injected money into the economy only in specific financial and geographic areas. Thus, while total disposable income rose, no substantial increase occurred in the disposable income of the average family unit.

These reasons for the lag in generation of new debt are mainly particular to this business cycle; in recovery phases of previous cycles, other factors discouraged consumer credit expansion. In fact, in almost all business cycles for which consumer credit expansion and contraction have been measured, changes in installment consumer credit (four-fifths of all consumer credit) lagged behind changes in general economic conditions by a median of +4.5 months. Moreover, net additions to consumer installment credit are so consistent in their moderate lag, that they are used as a moderate-lag indicator of business conditions.

The above observation appears to contradict the relatively defensive nature of the stocks of the consumer credit industries, for it implies that companies which react parallel to the business cycle are vulnerable to cyclical fluctuations in earnings and rate of growth. ***There is no contradiction, however, because of time differentials and diversification of income sources.***

Judging Values of Finance Companies

Time differentials relate to the operational characteristics of the consumer credit industries and, in a lesser degree, to the savings and loan group. There always exists a time lag separating total volume of loans purchased in a given year and the maturities of these loans. Thus, the high volume of loans made in a good year will, in terms of repayments, to a certain degree sustain earnings. Similarly, companies hope that loan volume will, as a result of improved economic conditions, pick up by the time repayments have petered out. Thus, the business cycle can work for consumer credit companies, rather than against them.

The appreciation of finance company shares in the market is not, however, based on anticipated increases in loan volume. Rather, it is based on anticipated increases in earnings generated from increased or anticipated loan volume, and from other sources of income extraneous to the company's financing operations. It is from these secondary sources of income that companies seek to generate increased earnings, and thus add to their defensive nature and to the growth image of their operations.

As these outside sources of income have been discussed in detail in an earlier article (see Magazine of Wall Street, March 11, 1961), they are not reviewed here. Two major additions to that article, however, do bear mention.

— **First**, in the course of this year the emphasis on diversification has shifted from internal generation of insurance, additional areas of credit servicing, and new office facilities, to expansion by acquisition and merger, whereby many smaller companies (often privately owned) are being absorbed.

— **Second**, the increased earnings from diversification have tended to hide the erosion of profit margins, and the deterioration of the growth *rate* in assets, cash position, and loan volume in the financing operations of the consumer credit industries.

— Again, what is true in the aggregate need not be true for individual companies. Thus, each company must be evaluated on its own merit and relative to its own industry group in order to establish its investment worth.

Sales Financing

Extensions of automobile credit (roughly 75% of all sales financing by finance companies) fell 13% between last year's and this year's first quarters, almost to the levels reached in the 1958 recession. At the same time the business recession caused a rise in repossessions resulting from a badly depressed used car market. From March-June 1961, the situation improved noticeably. The final quarters of this year, however, will again show deterioration

Statistical Data on Finance Companies

	1959 Earnings Per Share	1959 Div. Per Share	1960 Earnings Per Share	1960 Div. Per Share	Interim Earnings Per Share 1960	Interim Earnings Per Share 1961	Indicated 1961 Div. Per Share *	Price Range 1960-61	Recent Price	Div. Yield
AUTOMOBILE FINANCING:										
Associates Investment Co.	$5.05	$2.60	$4.46	$2.60	$2.23[5]	$2.12[5]	$2.60	76¼-49¼	75	3.4%
C.I.T. Financial Corp.	4.57	2.50	4.67	2.60	1.54[5]	1.68[5]	2.80	97 -49⅜	90	3.1
General Acceptance Corp.	1.45	1.00	1.46	1.00[1]	.61[5]	.66[5]	1.00[1]	26¼-17	23	4.3
General Contract Finance Corp.	.65	.30	.32	.40	.25[5]	.14[5]	.20[1]	8⅛- 5⅛	6	3.3
General Finance Corp.	2.69	1.20	2.87	1.30	1.40[5]	1.25[5]	1.40	49 -30⅝	47	2.9
Pacific Finance Corp. (Calif.)	4.77	2.45	[2]	[2]	[2]	[2]	[2]	— —	[2]	[2]
COMMERCIAL FINANCING:										
Commercial Credit Co.	2.74	1.40	2.83	1.40	1.36[5]	1.37[5]	1.60	54½-27⅝	52	3.0
Heller (Walter E.) & Co.	2.74	1.25	3.22	1.45	1.54[5]	1.58[5]	1.60	85½-37½	84	1.9
Standard Financial Corp.	.81	.44	.81	.48	.54[6]	.57[6]	.50	18¼- 8⅞	15	3.3
Talcott (James), Inc.	1.60	.69	1.62	.82	.90[5]	.89[5]	.90	57⅜-22⅜	56	1.6
SMALL LOAN:										
American Investment Co. (Ill.)	1.25	1.00	1.37	1.00	.70[5]	.63[5]	1.00	25⅞-17½	24	4.1
Beneficial Finance Co.	2.20	1.00	2.32	1.00[1]	1.16[5]	1.21[5]	1.00	59⅜-22⅜	54	1.8
Budget Finance Plan	.70	.40	1.32	.40	.36[6]	.89[6]	.41[1]	17⅞- 7	16	2.5
Family Finance Corp.	2.36	1.60	2.96[3]	1.60	N.A.	N.A.	1.80[4]	59 -28[4]	54[4]	3.3[4]
Household Finance Corp.	2.42	1.20[1]	2.44	1.20[1]	1.26[5]	1.48[5]	1.20	60½-27	54	2.2
Seaboard Finance Co.	1.47	1.00[1]	1.40	1.00[1]	1.11[6]	.82[6]	1.00	29⅜-20⅛	24	4.1

*—Based on latest dividend rate.
N.A.—Not available.
1—Plus stock.
2—9/11/61 N. Y. S. E. suspended trading in Co.'s stock; Transamerica Corp., now owns majority interest in Pac. Finance Co.
3—Year ended June 30, 1961.
4—Stockholders vote Oct. 17, 1961 on 2 for 1 stock split.
5—First 6 months.
6—First 9 months.

in the extension of automobile credit because of the disruption in automobile production.

In general, the individual issues in the sales financing group reflect the disappointing industry results. The downward trend of **Associates Investment Company** reported earnings since 1957 contrasts sharply with its previous uninterrupted gains in earnings after the end of World War II. Similarly, the growth rate of **C.I.T. Financial** earnings has slowed, averaging 9.5% per annum from 1951 to 1955 and only 3.4% between 1956 and 1960.

► Currently, both companies are seeking to resume an upturn in earnings through diversification —note the current merger discussions between **Associated Investment Company** and **Security Acceptance Corp.,** and C.I.T.'s aggressive entry into machinery and equipment leasing and into the financing of shell homes.

C.I.T. Financial's earnings for the first half of 1961 showed a small gain at $1.68 per share over the $1.54 earned in the first six months of 1960. However, the optimism of the management of the Company concerning next year's prospects is reflected in the recent announcement of a proposed 2 for 1 stock split to be effected next month with an increase in the quarterly dividend rate to 37½¢ per share ($1.50 annually) compared with 70¢ per share on the unsplit shares (equal to a comparable figure of $1.40 annually on the split shares). In addition to automobile financing which accounts for about half of total receivables, this largest independent sales finance company operates substantial financing and factoring operations on a consistently profitable basis. New activities which appear to have excellent future prospects include the financing of sales of "shell" houses, leasing of industrial equipment and extension of activities overseas. The stock is currently selling about 19 times latest earnings.

The small-loan operations of **General Acceptance** will exceed its auto financing in 1961, due to the company's acquisition of Security Credit Corp., and S. W. Coe & Co., this year. In contrast, **Pacific Finance** (ranked as the fourth largest independent auto finance company in the U. S.) was recently taken over by Transamerica Corp. through the exchange of stock. As the lion's share of Transamerica income is derived from its Occidental Life Insurance subsidiary, we shall not discuss the operations of Pacific Finance here.

Commercial Credit Corp.'s diversification has taken the company into many diverse areas of manufacturing. Financing activities account for the major portion of the company's total earnings.

Like C.I.T. Financial Corporation, the earnings of **Commercial Credit Company** showed only a small gain in the first half of 1961 compared with the first six months of 1960. On a per share basis, earnings for the first half of 1961 were $1.37 per share versus $1.36 in the comparable 1960 period. This Company's stock was split in April of this year on a 2 for 1 basis. At present the Company is making an exchange offer to stockholders of City Loan and Savings Company of 372,256 shares of 4½% Convertible Preferred Stock and 372,256 shares of Common Stock on the basis of one common share and one preferred share of Commercial Credit for each 3 shares of City Loan and Savings Company common stock. Commercial Credit Corp. stock, like C.I.T. Financial Corporation, is selling about 19 times earnings for the latest 12-month period.

General Finance, whose *(Please turn to page 207)*

FOR PROFIT AND INCOME

Inside The Market

At this writing, utilities are the star performers in the market, as they have been for some time. The average's net gain on the year to date approximates 30%, against less than 16% each for the industrial and rail averages. In the industrial list, stock groups performing better than the market at this time are mainly baking, dairy products, food brands, farm equipment, coal, office equipment, oils, department stores, food stores, mail order, textiles, tires and tobacco. In the finance field, bank and insurance stocks remain in good demand.

Lagging Groups

Stock group performing worse than the market at this time — in some cases for transient technical reasons, in other for more basic reasons — include aircraft, air transport, aluminum, chemicals, copper, drugs, electrical equipment and appliances, electronics-TV, machine tools, and steel.

Utility Splits

Utility stock splits used to be rather rare. But that was when these issues were regarded mainly as income stocks and price movement of most of them was usually quite moderate. In recent years, it has increasingly been recognized that the utility industry is a growth industry, although individual stocks in it range from slow-growth to fast-growth issues. It is a growth industry mainly because of the host of appliances that have become common in homes within the last generation especially; and because of present competitive gains made by electricity for home heating. Average per-share earnings growth is not spectacular but it exceeds that of the average industrial stock and is far more assured — indeed almost guaranteed — in continuity. More and more of the stocks have risen to levels at which splits become logical. The most recent one is a proposed 3-for-1 division of Pacific Gas & Electric, now around 97. Other possibilities are Central Illinois Public Service, Columbus & Southern Ohio Edison, Consumers Power, Houston Lighting, Illinois Power, Indianapolis Power & Light, Kansas P. & L.,

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1961	1960
Chemway Corp.	Quar. Sept. 30	$ .23	$ .11
Detroit Edison Co.	12 mos. Sept. 30	2.71	2.57
Xerox Corp.	Quar. Sept. 30	.38	.19
MacAndrews & Forbes Co.	9 mos. Sept. 30	2.04	1.58
Carolina Power & Light	12 mos. Sept. 30	2.38	2.28
Marine Midland Corp.	9 mos. Sept. 30	1.42	1.36
Bobbie Brooks, Inc.	Quar. July 31	.48	.43
American Enka Corp.	36 weeks Sept. 10	2.38	.36
Ex-Cell-O Corp.	Quar. Aug. 31	.75	.47
Tennessee Gas Transmission	12 mos. Aug. 31	1.43	1.22

and Texas Utilities.

"The Winner!"

In the battle for the cigarette market, the "winner and still heavyweight champion" — as a prizefight announcer would put it — is: Reynolds Tobacco. Growth has not yet slowed. It averaged about 15% a year in profits over five years through 1960. As indicated by the strong showing for the third quarter and the first nine months of 1961, it might be around 17% this year to something like $3.05 to $3.10 for the present split shares against 1960's adjusted $2.60. Aided by a large and highly efficient new plant, annual-rate earnings by the final quarter should exceed $3.40 a share. On a guess-estimate, they might approach $3.60 in 1962—which would mean growth of about 400% in ten years. Dividends have kept pace. Once a staid income stock, the issue is now generally recognized as a growth stock. At 78, it is selling around 25 times earnings, against about 21 times for the general run of industrial stocks. The premium, so measured, is less than 25%. We would say that Reynolds is worth more than 25% more than the average industrial. It comes hard to recommend buying after the issue has risen tremendously from the levels at which it was initially favored here. Suffice it to say it remains an excellent holding — and that a number of institutional funds keep buying it, especially on small price dips.

Strong Stocks

Stocks performing better than the market at this writing include: Bayuk Cigars, Bobbie Brooks, Borden, Consolidation Coal, Continental Can, Diamond National, Dover Corp., Friden, General Finance, Great A. & P., Hercules Powder, Hunt Foods, IBM, Sears Roebuck, Singer Mfg., and U. S. Tobacco.

Valuation

What is any stock worth? In the final analysis, what people think it is worth by "majority vote." More specifically, it depends more on the earnings trend and hoped-for future earnings than any of the other various factors. Where there has been a favorable trend, over-valuation generally persists for some time—perhaps a long time—after the profit uptrend has flattened out or been reversed. A stock can have a wide decline and still be over-valued if formerly good earnings are now poor and falling. Among the popular "growth" stocks of 1954-1959, Outboard Marine had peak earning of $1.76 a share in fiscal 1959 and reached a high of 39⅜, or about 22.3 times earnings. Profit for the fiscal year ended September 30 probably fell to something like $0.60-$0.70 a share. Currently at a new low of 18¼ the valuation is 28 times earnings. With renewal of growth unlikely, what might 1962 or 1963 earnings be? Maybe $1.25-$1.50? What might they be worth, with the stock now classed as a specialty cyclical issue? Maybe 10 times or 12 times? We concluded that at best the stock might be worth about what it is selling for now or somewhat less. This example illustrates the need for alertness and action after growth has halted or has been reversed. Many others could be cited. Quite a few of the issues now sagging to new lows are former "growth" stocks.

A Conservative Buy

American Express is the leading service organization gaining from the growth trend in domestic and foreign travel. Services include the familiar travelers cheques, travel-agency bookings, foreign commercial banking operations and a number of others. The company is cash-rich and derives important income from investments. Earnings, over doubled in the last six years, reached a record $2.03 a share in 1960, up from 1959's $1.91. In line with the established trend, they should be around $2.20 this year. At a $1.20 rate, dividends have about doubled in five years through 1960. The record and travel potentials suggest further profit growth at a rate of 10%-11% annually for an extended time ahead. The stock is now around 54 over the counter, yielding little over 2%. But you will not get good current yield on any growth issue. The valuation is around 25 times earnings, against roughly 21 times for the industrial average. The stock rates as a conservative issue, offering the desirable combination of above-average stability and above-average growth.

Addenda

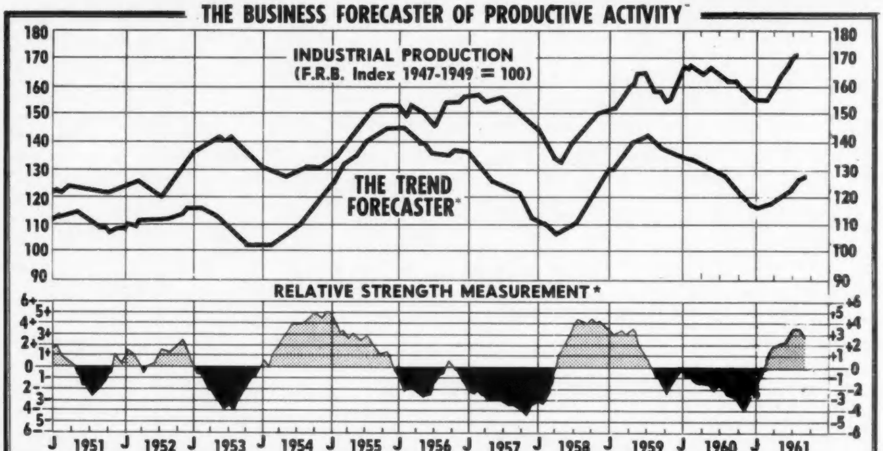
What the financial community calls a "leading" company is usually a large company. It may or may not be vigorous and growing. Commenting on the liquor industry here a fortnight ago, we noted that American Distilling, one of the smaller companies, had an impressive growth record in this non-growth (or maybe slow-growth) industry. Another is Beam Distilling, one of the oldest in the country, specializing mainly in Kentucky bourbons, with the Beam name still to be found among the directors. Sales have risen steadily for many years, earnings in each of the last eight years for a gain of about 640% over the period. They were $2.15 a share for the fiscal year ended last June 30, up from the prior year's $1.97. The trend suggests $2.30 or so this year. Due to working capital needs, dividends are at a modest $0.07 quarterly. However, there have been frequent stock dividends, including 2% in early October, following 1% each last April and last January. The stock is around 44 in a thin over-counter market. Despite the outstanding record, the valuation is less than 20 times earnings and thus moderately below the average for industrials.

END

DECREASES SHOW IN RECENT EARNINGS REPORTS

		1961	1960
Mead Corp.	16 weeks Oct. 1	$ .60	$ .70
Minn. Power & Light	12 mos. Sept. 30	2.35	2.42
United Shoe Machinery	Quar. Aug. 31	1.03	1.18
Aro Equipment	Quar. Aug. 31	.32	.42
Glidden Co.	Year Aug. 31	2.78	2.90
Hooker Chemical Corp.	9 mos. Aug. 31	1.16	1.24
Lukens Steel Co.	36 weeks Sept. 9	2.69	3.49
San Diego Gas & Elec.	12 mos. Aug. 31	1.52	1.91
Shamrock Oil & Gas	9 mos. Aug. 31	1.47	1.72
Atlantic Coast Line R.R.	8 mos. Aug. 31	1.95	2.71

the Business

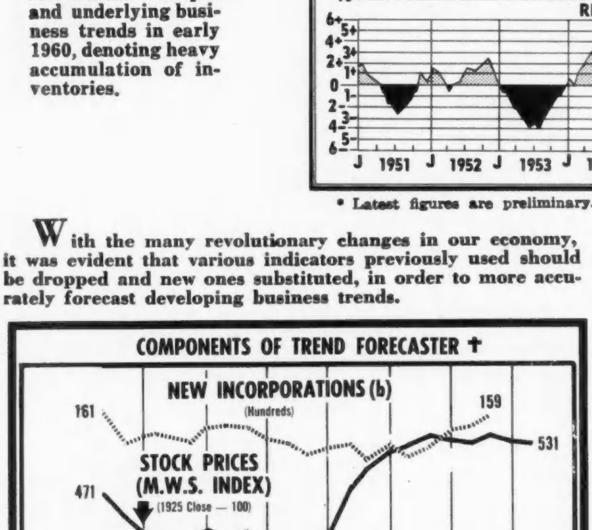


* Latest figures are preliminary.

Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, Industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes directions up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a sustained advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually indicates that an important contraction is in the making.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

The components of the Trend Forecaster appear to have lost some of their steam in September, although this may have been due in good part to the effects of temporary factors, such as the auto strike and Hurricane Carla. In the latest period for which data are available, three of the components declined from levels of the previous month, four advanced and one was unchanged. Advancing indicators included new orders, housing starts and new incorporations. Liabilities of business failures (inverted) were improved after adjustment for special factors. Declines were noted for stock prices, nonresidential construction contract awards, and raw industrial commodity prices. Hours worked remained unchanged on the basis of our estimates.

Further declines in some of the indicators affected their intermediate trend, and as a result the Relative Strength Measure eased off to the plus 2.5 level, from its high of plus 3.6. At its current level it is still forecasting further recovery at least into Spring, but at a more leisurely pace than previously indicated.

Analyst

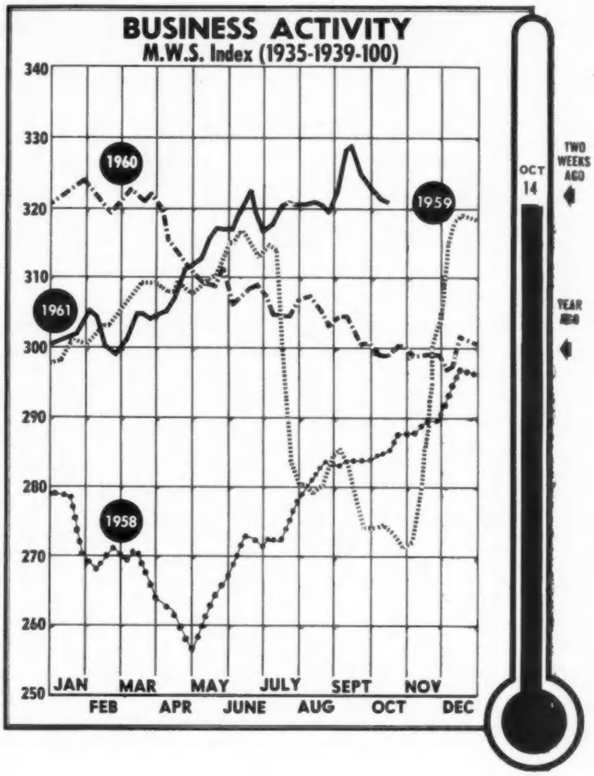
CONCLUSIONS IN BRIEF

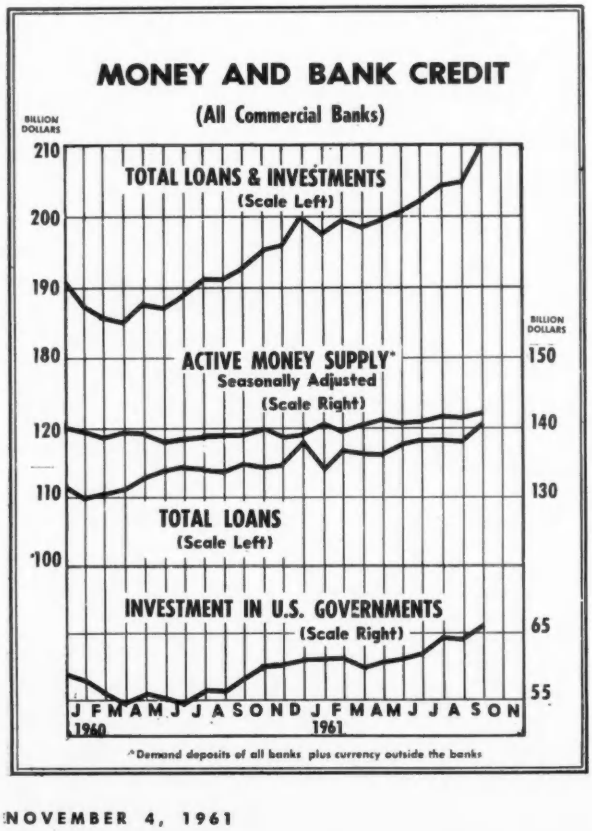
PRODUCTION — Output hit by auto strikes and hurricane in September. Some improvement setting in now, with strength evident in autos, paperboard and electric power output. Further moderate gains in overall production to be expected in the months ahead but no strong boom.

TRADE — Some signs of reviving consumer interest are now becoming visible in retail markets, with autos, appliances and soft goods all reflecting increased demand. Gains are partly seasonal, however, and more data on spending trends will be required before it can be determined whether the public is coming back into the market in a big way.

MONEY & CREDIT — Corporate bond prices declined a bit in recent weeks, mainly as the result of a bigger supply of new issues. The gold outflow from this country continues to worry bondholders as it could eventually force the Treasury to abandon its easy money policy.

COMMODITIES — Prices still stagnant, with producers waiting for demand to catch up with increased output. Cost of living still rising, but broad wholesale price indices remain in the narrow range that has now existed for several years.





BUSINESS activity has slowed down a bit in recent weeks and this may have served a constructive purpose in restoring a sense of proportion to some hitherto over-sanguine observers of the business scene.

The dip which took place in September was concentrated in production and hours worked, and was in good part the result of such extraneous factors as labor troubles in the auto industry and interruptions in plant schedules stemming from Hurricane Carla. If these restraining developments had not taken place, September results would clearly have been better. However, it is also evident that the pace of recovery has slowed and that no sharp improvement has taken place thus far in October. This does not mean that the upturn has reached a peak, although it does reinforce the probability that further advance will be on a more moderate scale than in the earlier months of the recovery.

Despite the recent hesitation in the economy, underlying prospects are far from discouraging, although it still remains to be seen whether certain key sectors, namely consumer spending and spending for capital expansion, will contribute fully to the recovery. On the constructive side at present, we find that manufacturers' new orders for durables rose again in September, according to preliminary estimates of the Commerce Department, reaching a new high since June, 1959. Although manufacturers' shipments for the month were lower, this resulted in a sharp rise in order backlogs, thus portending

(Please turn to the following page)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Sept.	169	171	162
Durable Goods Mfr.	1947-'9-100	Sept.	171	175	166
Nondurable Goods Mfr.	1947-'9-100	Sept.	170	169	159
Mining	1947-'9-100	Sept.	129	129	127
RETAIL SALES*	$ Billions	Sept.	18.2	18.2	18.1
Durable Goods	$ Billions	Sept.	5.5	5.5	5.8
Nondurable Goods	$ Billions	Sept.	12.6	12.7	12.3
Dep't Store Sales	1947-'9-100	Sept.	150	150	144
MANUFACTURERS'					
New Orders—Total*	$ Billions	Aug.	32.1	31.3	30.0
Durable Goods	$ Billions	Aug.	15.6	15.0	14.4
Nondurable Goods	$ Billions	Aug.	16.6	16.3	15.6
Shipments*	$ Billions	Aug.	31.6	31.2	30.1
Durable Goods	$ Billions	Aug.	15.2	14.8	14.4
Nondurable Goods	$ Billions	Aug.	16.4	16.4	15.7
BUSINESS INVENTORIES, END. MO.*	$ Billions	Aug.	92.1	91.8	93.3
Manufacturers'	$ Billions	Aug.	54.0	53.5	55.0
Wholesalers'	$ Billions	Aug.	13.6	13.6	13.1
Retailers'	$ Billions	Aug.	24.5	24.7	25.2
Dept. Store Stocks	1947-'9-100	Aug.	169	166	169
CONSTRUCTION TOTAL—†	$ Billions	Sept.	58.4	57.8	55.6
Private	$ Billions	Sept.	41.4	41.2	39.3
Residential	$ Billions	Sept.	23.4	23.3	22.1
All Other	$ Billions	Sept.	18.0	17.9	17.2
Housing Starts*—a	Thousands	Sept.	1360	1321	1089
Contract Awards, Residential—b	$ Millions	Sept.	1620	1589	1277
All Other—b	$ Millions	Sept.	1620	1954	1842
EMPLOYMENT					
Total Civilian	Millions	Sept.	67.0	68.5	67.8
Non-farm*	Millions	Sept.	53.4	53.4	53.0
Government*	Millions	Sept.	8.9	8.8	8.5
Trade*	Millions	Sept.	11.6	11.7	11.7
Factory*	Millions	Sept.	12.0	11.9	12.2
Hours Worked*	Hours	Sept.	39.3	40.0	39.1
Hourly Earnings	Dollars	Sept.	2.34	2.34	2.30
Weekly Earnings	Dollars	Sept.	92.66	93.83	91.08
PERSONAL INCOME*	$ Billions	Sept.	420	419	406
Wages & Salaries	$ Billions	Sept.	283	283	273
Proprietors' Incomes	$ Billions	Sept.	61	61	60
Interest & Dividends	$ Billions	Sept.	42	42	41
Transfer Payments	$ Billions	Sept.	33	33	30
Farm Income	$ Billions	Sept.	17	17	17
CONSUMER PRICES	1947-'9-100	Sept.	128.3	128.0	126.8
Food	1947-'9-100	Sept.	121.1	121.2	120.2
Clothing	1947-'9-100	Sept.	111.1	109.9	110.6
Housing	1947-'9-100	Sept.	132.6	132.3	132.0
MONEY & CREDIT					
Active Money Supply*—u	$ Billions	Sept.	142.2	141.3	138.5
Bank Debits*—g	$ Billions	Sept.	100.2	102.4	96.2
Business Loans Outstanding—c, u	$ Billions	Sept.	31.9	31.5	31.7
Instalment Credit Extended*—u	$ Billions	Aug.	4.1	4.0	4.1
Instalment Credit Repaid*—u	$ Billions	Aug.	4.1	4.0	3.9
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Aug.	6.4	3.0	6.5
Budget Expenditures	$ Billions	Aug.	7.6	6:3	6.8
Defense Expenditures	$ Billions	Aug.	4.1	3.4	4.1
Surplus (Def) cum from 7/1	$ Billions	Aug.	(4.6)	(3.3)	(3.4)

PRESENT POSITION AND OUTLOOK

a higher rate of output and shipments in coming months. The auto industry, which contributed to the recent slow-down in output, will be a plus factor, at least for the near term. Output of the new models is now beginning to rise sharply and will remain at a high level for some months, as manufacturers strive to rebuild dealers' stocks to an adequate level. Increased production of cars will stimulate supplier industries and should result in a pickup in the presently becalmed steel industry. Improvement in these important areas will stimulate employment and add to personal income, which is already at record levels.

If gains in these various fields are to be sustained, however, improved consumer demand will be required. Some signs of such improvement have already begun to appear, including a recent gain in appliance sales, a record level of demand for soft goods and an increase in retail sales of autos. Although these gains have not lasted long enough to give us complete assurance of a change in consumer attitudes, they are certainly a step in the right direction.

Another area that still has to prove itself, is spending for new plant and equipment. Businessmen have previously reported that they planned appreciable increases in capital outlays in the second half of this year, but corporate appropriations for this purpose have risen only half-heartedly and actual expenditures do not appear to be up to expectations. The picture may change, however, if Administration moves to revitalize capital expansion bear fruit. The textile industry has already been granted accelerated depreciation on machinery and equipment and the industry's leaders report they are planning sharp increases in capital spending as a result. Treasury Secretary Dillon has promised similar changes in depreciation rules for industry in general by Spring and the Administration also seems determined to press its legislative program for tax credits to spur equipment purchases. These reforms, if realized, could provide strong stimulus for industrial expansion and modernization, although their efficacy may also

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1961 Quarter II	1961 Quarter I	1960 Quarter IV	1960 Quarter II
GROSS NATIONAL PRODUCT	516.1	500.8	504.5	506.4
Personal Consumption	336.1	320.7	332.3	329.9
Private Domestic Invest.	68.8	59.8	65.6	74.6
Net Exports	3.9	5.3	5.1	2.3
Government Purchases	107.3	105.0	101.6	99.6
Federal	56.6	54.7	53.0	52.9
State & Local	50.6	50.3	48.6	46.8
PERSONAL INCOME	413.2	404.7	405.5	403.0
Tax & Nontax Payments	51.5	50.4	50.6	50.3
Disposable Income	361.8	354.3	354.9	352.7
Consumption Expenditures	336.1	330.7	332.3	329.9
Personal Saving—d	25.7	23.7	22.7	22.8
CORPORATE PRE-TAX PROFITS	45.2	39.6	42.6	46.3
Corporate Taxes	22.4	19.6	21.1	23.0
Corporate Net Profit	22.8	20.0	21.4	23.3
Dividend Payments	14.0	14.2	14.3	14.0
Retained Earnings	8.6	5.8	7.2	9.3
PLANT & EQUIPMENT OUTLAYS	34.4	33.9	35.5	36.3

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Oct. 14	321.2	321.6	297.5
MWS Index—Per capita*	1935-'9-100	Oct. 14	226.8	227.2	214.2
Steel Production Index*	1957-'9-100	Oct. 14	111.2	112.8	84.8
Auto and Truck Production	Thousands	Oct. 21	169	119	170
Paperboard Production	Thousand Tons	Oct. 14	350	350	327
Paperboard New Orders	Thousand Tons	Oct. 14	333	382	309
Electric Power Output*	1947-'49-100	Oct. 14	297	292	276
Freight Carloadings	Thousand Cars	Oct. 14	642	640	653
Engineerings Constr. Awards	$ Millions	Oct. 19	613	389	400
Department Store Sales	1947-'9-100	Oct. 14	156	164	155
Demand Deposits—c	$ Billions	Oct. 11	62.1	61.5	61.2
Business Failures—s	Number	Oct. 12	341	330	326

PRESENT POSITION AND OUTLOOK

depend on the attitude towards business prevailing in Washington.

The foregoing review indicates that further near-term recovery is to be expected. However, further gains in 1962 will depend on improvement in all the major sectors of the economy, whose vigor in some cases is still to be demonstrated.

We have left discussion of the Government sector for last because of the curiously ambivalent effects that may result from increased Federal spending. Such increases would stimulate the domestic economy but they could also create new and more serious problems. We are referring to their effect on the already large shortfall in our balance of payments. If Federal deficits rise as rapidly as now indicated, capital may begin to seek safer refuge abroad. Such a development would necessitate restrictive Government counter-measures, certainly not a pleasant prospect to contemplate.

* * *

NEW ORDERS FOR MACHINE TOOLS spurted sharply in September, but most of the gain was in orders from abroad and was not the result of a strong domestic upsurge.

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun & Bradstreet. (t)—Seasonally adjusted, annual rate. (u)—End of month data. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1960-61 High	1960-61 Low	1961 Oct. 13	1961 Oct. 20
Composite Average	550.0	410.9	532.4	532.4
4 Agricultural Implements	497.2	346.4	389.3	400.8
3 Air Cond. ('53 Cl.—100)	176.9	105.8	155.9	154.6
10 Aircraft & Missiles	1393.5	861.9	1243.4	1179.1
7 Airlines ('27 Cl.—100)	1163.6	736.7	919.5	870.7
4 Aluminum ('53 Cl.—100)	521.3	329.1	329.1	329.1
5 Amusements	427.0	209.3	343.4	343.4
5 Automobile Accessories	531.1	401.0	475.5	475.5
5 Automobiles	157.0	90.8	126.2	125.3
3 Baking ('26 Cl.—100)	44.6	34.9	37.8	39.8
4 Business Machines	2008.2	1159.1	1903.8	1956.0
6 Chemicals	887.1	657.3	849.9	842.4
3 Coal Mining	39.6	27.2	39.0	39.6H
4 Communications	257.6	199.9	240.1	240.1
9 Construction	235.2	143.3	230.1	228.4
5 Container	1135.0	824.6	1091.7	1135.0H
5 Copper Mining	399.3	275.4	344.3	333.2
2 Dairy Products	244.7	146.8	242.6	244.7H
5 Department Stores	223.5	135.2	220.5	223.5
5 Drugs-Eth. ('53 Cl.—100)	474.7	360.4	438.1	426.4
5 Elect. Eqp. ('53 Cl.—100)	409.4	310.7	405.9	395.6
3 Finance Companies	1163.9	648.8	1131.8	1163.9H
5 Food Brands	853.1	419.3	791.8	830.8
3 Food Stores	331.0	232.1	326.0	326.0

(Nov. 14, 1936 Cl.—100)	High	Low	Oct. 13	Oct. 20
High Priced Stocks	342.8	262.7	337.6	338.4
Low Priced Stocks	729.8	527.6	681.0	682.9
5 Gold Mining	1226.0	810.8	1050.8	1072.7
4 Investment Trusts	173.5	136.5	163.7	163.7
3 Liquor ('27 Cl.—100)	1548.9	1098.2	1466.8	1431.5
7 Machinery	647.3	402.9	564.6	559.7
3 Mail Order	494.2	364.2	478.0	478.0
4 Meat Packing	313.9	223.9	285.3	277.6
4 Mtl. Fabr. ('53 Cl.—100)	208.6	132.4	179.7	175.5
9 Metals, Miscellaneous	483.4	313.3	473.3	463.3
4 Paper	1237.1	867.3	1149.1	1158.9
16 Petroleum	828.6	609.0	728.6	728.6
16 Public Utilities	504.4	341.6	496.4	504.4H
6 Railroad Equipment	111.7	75.8	103.7	103.7
17 Railroads	70.1	49.9	60.2	60.7
3 Soft Drinks	1096.6	690.3	1059.1	1059.1
11 Steel & Iron	464.9	325.4	373.3	366.6
4 Sugar	100.9	63.0	82.9	82.2
2 Sulphur	874.7	563.1	775.9	754.8
11 TV & Electron. ('27—100)	130.4	86.8	115.0	115.0
5 Textiles	264.2	183.3	250.6	252.6
3 Tires & Rubber	255.9	170.6	233.5	238.9
5 Tobacco	342.0	182.5	339.7	342.0H
3 Variety Stores	402.4	349.3	398.9	402.4H
16 Unclassifd (49 Cl. — 100)	337.7	224.0	295.5	300.2

H—New High for 1960-1961.

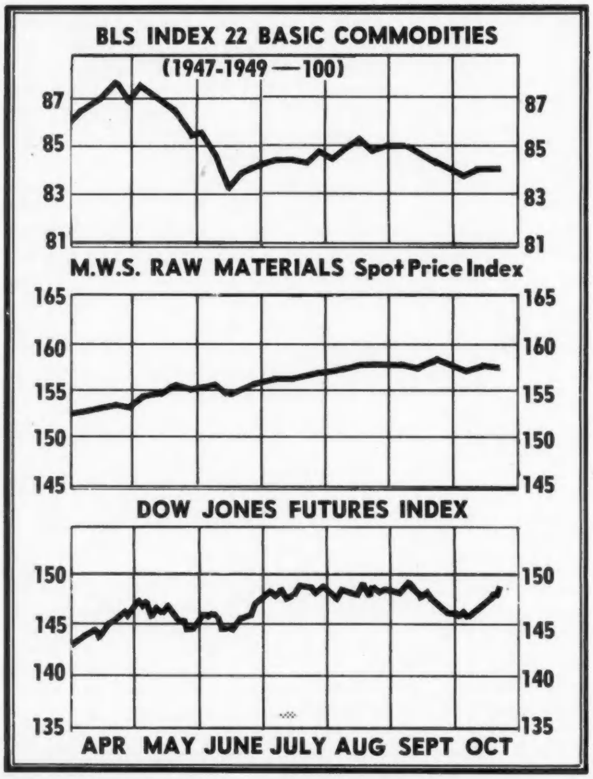
Trend of Commodities

SPOT MARKETS—Sensitive commodities were rather mixed in the two weeks ending October 20, with foods advancing while raw industrial materials were somewhat lower on balance. The BLS daily index of 22 commodities rose 0.5%, although the industrial materials' sector was off 0.2%. Among the latter, there were more plusses than minusses, but the losses were more severe. Steel scrap showed marked weakness and hides were off while copper scrap, burlap and wool tops advanced.

Meanwhile, the broad range of commodities, as reflected in the comprehensive BLS weekly wholesale price index, showed a steadier tone. Farm products were somewhat lower but the index of all commodities other than farm and food products advanced 0.2%.

FUTURES MARKETS—Commodity futures scored a strong advance on a broad front in the fortnight ending October 20. All major markets in cotton, wheat, corn, oats, rye, soybeans, flax and barley made gains, the greatest being in soybeans, corn, and rye. Cocoa rebounded sharply from lows reached early in the period. Only Chicago soybean oil, lard and the distant months in copper were lower.

Wheat futures were higher in the period under review, the May contract gaining 1⅞¢ to close at 211⅝. Through September, producers had placed 203,194,797 bushels of 1961 crop wheat under price supports; 121,020,142 bushels less than last year at the same time. Brisk demand caused by the reduced available supplies of free wheat and continued high export shipments have maintained prices at a point above loan levels.



BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Oct. 17	118.5	118.5	119.6	60.2
Farm Products	Oct. 17	86.9	87.8	89.5	51.0
Non-Farm Products	Oct. 17	127.2	127.0	128.0	67.0
22 Sensitive Commodities	Oct. 20	84.1	83.7	83.6	53.0
9 Foods	Oct. 20	74.4	73.3	75.7	46.5
13 Raw Ind'l. Materials	Oct. 20	91.3	91.5	89.4	58.3
5 Metals	Oct. 20	95.6	97.0	89.2	54.6
4 Textiles	Oct. 20	84.7	83.9	80.2	56.3

MWS SPOT PRICE INDEX

14 RAW MATERIALS

1923-1925 AVERAGE—100

AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

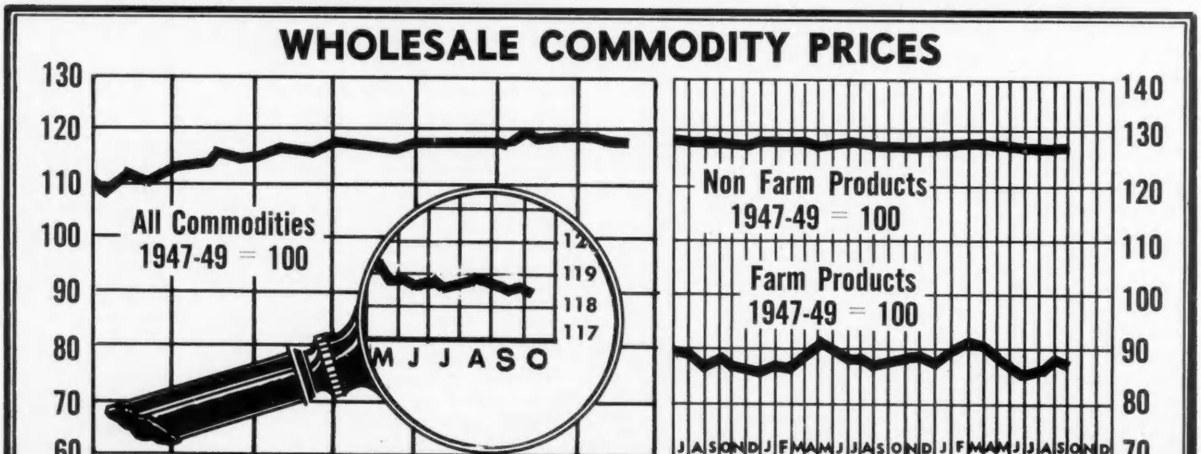
	1961	1960	1959	1953	1951	1941
High of Year	158.4	160.0	161.4	162.3	215.4	85.7
Low of Year	150.5	151.1	152.1	147.9	176.4	74.3
Close of Year		151.2	158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX

12 COMMODITIES

AVERAGE 1924-1926—100

	1961	1960	1959	1953	1951	1941
High of Year	148.9	148.7	152.7	166.8	215.4	84.6
Low of Year	141.2	141.2	144.2	153.8	174.8	55.5
Close of Year		141.2	147.8	166.5	189.4	84.1



What Third Quarter Earnings Reports Reveal

(Continued from page 178)

containers. The company's know-how and marketing alertness have begun to pay off, however. Sales climbed modestly, but profits jumped to $1.24 a share in the latest reporting period compared to only 84¢ a year earlier. The sudden jump in profit margins suggests that Continental's transitional period is over and that a new level of profitability is in the making.

Drugs Falter

About the only major group close to the consumer that failed to make progress was the drug industry. Most of its members have not yet reported as of this writing, but **Parke-Davis** once more indicated that it has still not solved the problems created by its heavy reliance on chloromycetin. Profits again fell, this time to 31¢ a share from the 50¢ reported a year ago.

Smith, Kline & French fared a little better, managing to top last year's 43¢ a share by 5¢. However, profits slipped behind the second quarter and the profit margin showed a further drop.

Schering, on the other hand, made substantial progress, showing net profit of 86¢ a share compared to 77¢ a year ago and only 45¢ in the second quarter. New products are beginning to pay off for this smaller company, after several years of unimpressive results.

Fading Hope for 1961 Profits Improvement

Early earnings reports are not always conclusive and should be read with some reserve. From the results so far available, however, corporate profitability indicates a much milder business upturn than had been expected earlier in the year. Fourth quarter results may still bring earnings for the year ahead of 1960, but so far there is little evidence to support this hope very strongly. END

Note. Part Two of this study of third quarter earnings will appear in our next issue dated November 18, 1961.

Justice Department Throttling Our Economic Growth?

(Continued from page 174)

contention that the close of business was 3 o'clock on September 8, rather than 4 o'clock, as the government attorneys asserted. But although the Anti-trust Division has implied the bankers were guilty of trickery, the real issue is the conflict between government departments.

Other interferences within the province of established regulatory agencies could be cited. These may be performed in good faith, but it is also possible that they reflect Bobby Kennedy's drive to win plaudits for himself. Certainly they often betray an ignorance of the facts of modern economic life.

Bigness Is Not A Crime

It is evident that the Justice Department's target is, in many instances, nothing more than corporate bigness in itself.

It might as well be immediately admitted that some aspects of modern, large-scale corporate organization are disagreeable. Large aggregations of capital are powerful, and it is possible that they could conspire to injure the public interest. The impersonality of modern corporations — despite the best efforts of their public relations staffs — is disheartening. It was pleasant to work in a small factory where the boss knew every workman by name, or to shop at a ma-and-pa grocery store where there was time for a little visiting while the packages were being piled up on the counter.

But these pleasant accompaniments of an earlier business generation were secured only at a price — a price few of us would want to pay today, and one which would, in fact, represent a dangerous luxury in the light of the current struggle for world economic leadership.

The essential nature of bigness may be emphasized by the fact that it is not a characteristic of modern business life alone. Edu-

cation is also "big" now, and even charities are being scientifically organized on a national scale. And not least to be mentioned, government has mushroomed most rapidly of all. The old days when the income tax rate was 4% and the only federal employee most of us knew was the postman are pleasant to recall — but these conditions no longer fit the complexities of modern life. An evolution in forms of corporate organization has been equally necessary.

Large Scale Operation Means Efficiency

Let's be a litt'e more specific. Low unit costs for manufactured goods require large markets — and mass production. We have long possessed the broad market which Europe is only now beginning to achieve, by the suppression of internal tariff barriers. But vast as our market is, too minute a fragmentation of production would still be uneconomical. This fact, rather than any sinister drive toward monopoly, explains why so many industries today are dominated by four up to a dozen major companies. In most cases competition has probably been enhanced by these powerful organizations struggling for markets all the way across the map, instead of a situation in which a large number of smaller companies each comfortably dominated its own regional market.

► But even though modern conditions do favor large, integrated corporations, the extent to which individual companies dominate the market is frequently exaggerated.

► **In 1901, U. S. Steel accounted for two thirds of our total ingot capacity; today, vastly bigger than it was then, it represents only 28% of the industry.**

► **Giant du Pont, the target of a protracted antitrust suit, does only 8% of the nation's chemical business.**

► As investors know, a number of new chemical concerns have managed to enter the big time in recent years despite the vast lead of the Big Four. Another Big Four, in the tire and rubber industry, can hardly be indifferent to the spirited competition of such independents as Armstrong and Seiberling. And in the food distribution industry dominated by A & P and a couple of other giants a number of new entrants like Penn Fruit and ACF-Wrigley have somehow managed to do very well for themselves.

Market Domination Not Necessarily Sinister

It is also far-fetched to suggest that the dominance of a single company is necessarily the result of conspiratorial action, as the government implies in its suit against the Electromotive Division of **General Motors.** It is quite true that GM holds a near-monopoly of the diesel locomotive business in this country. This situation resulted because the three standard locomotive manufacturers stubbornly stuck to the steam engine after its obsolescence was clearly written on the wall. Although two of them tardily shifted to the diesel, they were too late to be more than feeble also-rans, and GM obtained 85% of the market almost by default. As a matter of fact GM's position is so strong as to render ludicrous the government's charge that it has pushed the sale of locomotives by assigning its freight traffic on a reciprocal basis. Since practically all roads have bought and used GM diesels, no such basis could be found for favoring one road over another.

► In an entirely different field **Pitney-Bowes** found itself, completely by happenstance, the sole manufacturer of postage metering devices. The company has agreed to help set up its own competition — but one can hardly feel that it is under any moral compulsion to do so.

Human Nature in Business

Besides internal growth and the acquisition of companies in similar businesses, a strong tendency also exists for corporations to expand by vertical integration, that is, by reaching upward along the lines of supply to control parts and raw materials, or downward toward the ultimate consumer. In this process some companies are bound to be hurt, and then they are all too prone to call "Foul!", alleging conspirational actions.

Modern conditions do, unfortunately, make it difficult to start a new business, but the high rate of taxation and low rate of depreciation probably represent more severe obstacles than the competition of large companies.

Capital for Business Enterprise

Another aspect from the point of view of the general welfare is the great ease of larger than smaller companies in raising new capital. The average investment per job is now slightly in excess of $20,000 (and reaches as high as $60,000 in the petroleum industry). At a time when full employment and more rapid economic growth are both important national objectives, it would be ridiculous to penalize the most efficient channels of capital formation merely because they are big.

The foregoing arguments do not by any means suggest that the ferreting out of price-fixing and conspiracy to suppress trade are not proper governmental functions, or that the Antitrust Division should close up shop. On the contrary, true monopoly should be prosecuted as vigorously as possible. But we cannot afford at this vital juncture to handicap business on far-fetched charges of a "tendency" toward monopoly.

World conditions today call for the tools of big business in meeting the challenge of the economic warfare instituted by the Soviet Union, whose broad decision-making powers must be met by a power that can combat such a setup. We cannot afford to diffuse our power by multiplying the number of decision-makers, as would be the case if we broke the large companies up into small units. This is no time for political juggling, nor for any trust-busting campaign arising out of a desire to set a new record for trust-busting. END

The Finance Companies in Depth

(Continued from page 197)

activities include auto finance, personal loans, and insurance, from 1953 to 1960 through yearly increases, doubled its earnings, its dividend and its book value per share. The 74 personal loan offices which it opened during the past two years should measurably add to the company's earnings in 1962 and 1963, just as its write-offs held back net during the past two years. The growth of General Finance has resulted primarily from internal generation of funds, with cash needs met through debt or non-convertible preferred issues designed to avoid dilution of stockholders' equity. The quality of the company is reflected by a generally unknown fact: of the $21 million 5% Senior Notes privately placed this year, the Ford Foundation took down $9.5 million; Aetna Life Insurance, $2.0 million; major funds, trusts and banks took down the remainder.

Personal Loan Financing

Diversification by nearly all the major sales financing companies from the volatile auto financing area to the faster-growing, more stable, and more profitable area of personal loans, reflects the optimism of the consumer credit industries' management about the potential of the personal loan industry. Credit experts project a 60% increase in consumer installment debt by 1970 because of several factors: the increased public acceptance of the use of consumer credit, the growing regularity of consumer income, the tendency toward early marriage which limits young couples' cash reserves, and the increasing margin of income over subsistence spending. **Even granting this 60% per decade increase — an average growth rate of only 4.8% — the rate of earnings growth in the personal loan industry will suffer because of increased competition among companies, higher service costs, a less flexible interest rate structure, and increased competition from banks and captive finance companies.**

The investor must therefore only hold stocks in companies whose rate of growth is expected to exceed the industry average, whose dividends afford a measure of downside risk protection, and whose current market price does not discount years of future growth.

Substantial increases in earnings are anticipated by the managements of **Beneficial Finance, Family Finance** and **Household Finance** during the 1961-1963 period.

Household Finance Corp. reported a good gain in earnings, approximately 12% for the first half of 1961 compared with the first six months of last year. This was achieved through stringent cost controls and a gain in the volume of loans. The Corporation is working out arrangements with various retail outlets to finance consumer installment buying of items from automobiles to television sets. At a recent price of 54 the stock is selling around 20 times latest earnings.

Beneficial Finance Company— Company is making excellent progress as reflected in management's recent estimate of 1961 calendar year earnings of $2.80 to $2.90 per share compared with $2.32 per share for 1960. In recognition of this gain, the Company recently announced an intention to pay a 10% stock dividend on November 6 contingent upon approval of the merger with Western Auto Supply Company. The combination with the latter, 57% of whose retail sales are on credit, would give Beneficial Finance a direct source of substantial sales financing business. At a recent price of 54 the Company's stock is selling at approximately 19 times estimated 1961 earnings.

American Investment during the twelve months period ended June 30, 1961, opened or acquired a total of 147 consumer finance offices. A substantial part of these additions resulted from the company's recent purchases of the M. A. C. Credit Corp. and the Royal Loan Group. As a result of these purchases and a new method of credit evaluation developed by the company, management hopes that earnings will break away from their five-year plateau.

Two smaller companies primarily in the small loan industry present an interesting contrast. **Budget Finance** recently expanded its activities into sales financing, commercial financing and

life insurance. Aided by lower preferred dividends and lower operating expenses, this highly leveraged company substantially increased earnings in the first half of this year. **Seaboard Finance** recently cut back on its credit card venture after sustaining a loss on it this year.

Commercial Financing

The loans of commercial financing companies are generally higher in principal amount, shorter in duration, and issued at lower rates than those of the consumer finance companies. As such, the defensive nature of commercial finance operations stems not from repayment lags, but rather from the ability of the commercial finance company to fill in gaps in the turnover of its short-term notes with longer term paper — equipment leasing and the like. Thus, sustained earnings growth is the mark of superiority in the commercial finance field.

Heller (Walter E.) displays a good growth record in share earnings and dividends. Similar to its major competitor, **Talcott (James)**, Heller has recently established Canadian connections for industrial financing in that country. END

Bank Stocks Look Good For 1962

(Continued from page 190)

• The problem of continually increasing operating expenses—chiefly in the form of higher salaries and employee benefits to meet the competition of industry for competent personnel.

The banks have attempted, with some degree of success, to find solutions for these problems. (1)—They have offered Certificates of Deposits bearing interest comparable with Treasury bills to corporate depositors. (2)—On savings accounts, many commercial banks have increased their interest payments through the adoption of more liberal methods of calculation of interest, chiefly by paying interest to the date of withdrawal and by allowing grace days at the beginning and end of each month. This has been costly to such banks as those on the West Coast where savings accounts are relatively large, but it has helped them to retain and expand their savings deposits.

(3)—To meet increasing operating expenses, the banks have made important strides toward automation. However, the most important gains in this area are believed to lie ahead when the use of common checking forms with magnetic ink identifying characters will permit electronic sorting of checks on a large scale. This is expected to be achieved in the next few years. Already a major percentage of the country's commercial banks have prepared their checks with the magnetic ink arabic characters.

New York, Philadelphia and Midwestern Banks

► Among the New York City banks, **Chemical Bank New York Trust** stands out this year with a 6% gain in net operating earnings for the first nine months. This is due in part to the fact that last year's results for Chemical were below average. However, this bank is one of the most dynamic and best managed of the financial institutions in New York and may be expected to continue to move ahead in the future.

First National City, Chase Manhattan, Bankers and **Manufacturers Hanover** are other leading New York banks which have large branch systems so that they are equipped to provide retail as well as wholesale banking services. All except the last named have applications pending to acquire banking systems in the suburbs. And, of course, **Morgan Guaranty Trust** would get into the retail banking field via the holding company if the proposed state-wide Morgan New York State Corporation wins the approval of the Federal Reserve Board in addition to the existing approval of the Superintendent of Banks of New York.

► In the Mid-West the Chicago banks, chiefly **First National of Chicago** and **Continental Illinois National Bank,** are dominant institutions whose stocks have performed very well in the market this year. These two banks are expected to continue to do well, with a good chance for a stock dividend in the case of Continental within the near future. **National Bank of Detroit, National City Bank of Cleveland** and **Cleveland Trust Company** are other well-managed Mid-western banking institutions which have performed well and give promise of continuing to do well in the future.

On a price-earnings basis some of the best values in bank stocks appear to exist among such Philadelphia banks as the **Pennsylvania Company for Banking and Trusts, Girard Trust Corn Exchange** (whether the merger with Philadelphia National is approved or not) and **Fidelity-Philadelphia Trust Company.** The Philadelphia area, especially since the construction of the Fairless Steel Works and the reconstruction of the city's buildings, has materially improved its economic prospects for the future.

Southwest and West Coast Institutions

Banks on the Pacific Coast and in the Southwest have been sought after by investors in recent years because of their superior growth potentials. The California banks, especially, have become favorites because, in addition to excellent growth possibilities, California permits state-wide branch banking. **Bank of America, Security First National Bank of Los Angeles, Wells Fargo America Trust Company** and **Crocker-Anglo National Bank** all have moved up sharply this year as investors' interest has focussed on the West Coast banks. However, the increased interest paid on savings accounts has slowed the earnings gains of these banks this year.

In the Southwest, **Republic National Bank of Dallas** and **Valley National Bank of Phoenix** have been bank growth stock favorites. The state banking laws of Texas, which do not permit branch banking, tend to handicap the expansion of banks in that state as they do in Illinois and other States which have such restrictions. But the growth of the business in Texas appears to offset in considerable measure the restrictive effect of the law.

Major Bank Holding Systems

Among the bank holding companies, the **Western Bancorporation** (formerly Firstamerica Corporation) stands out as a growth situation. With its major constituent bank in California (United California) plus other banks in Oregon, Washington, Arizona, Utah, Nevada, Colorado and four other Western states, this system also has over $5 billion of con-

solidated assets and a fine management team. Among the other major bank holding company groups which have wide and growing areas to draw upon and efficient operating organizations are **Marine Midland Corporation** of New York, **Northwest Bancorporation, First Bank Stock Corporation** (both of the latter headquartered in Minneapolis) and **First Wisconsin Bankshares.**

In summary the outlook for the banks for 1962 and 1963 appears to be favorable since interest rates are firming and the volume of bank earnings assets is increasing. However, most leading issues have had sizable gains and are at or near the highs for the year, so that purchases must be carefully timed. END

Textile Companies Get "Break" From The Government

(Continued from page 194)

present earnings weakness. In addition, the company has been developing some new fabrics for the casual and sportswear field.

Dan River Mills, a major producer of yarn dyed cotton goods, also does factoring and commission business. The latter activities are increasing; and should begin to carry through to net more importantly. Although higher cotton prices may temporarily pinch earnings, government relief is expected in this area before long, improving prices, as evidenced by recent price increases of 8-square print cloth, the industry bellwether, to 17¾¢ from 17½¢ indicates that further increases should be coming as the economy picks up and heavier demands are made on present inventory positions. It will take some time before increases are transmitted into higher earnings.

Pepperell Manufacturing, also well known manufacturer of sheets and pillowcases, can be considered one of the more successful companies in the field, not due to an increase in sales, but rather to better cost controls. The company has paid some dividends ever since 1852. While earnings are not expected to show much growth, the earnings level should remain at about the same attractive rate. On this basis, income is the primary basis for interest.

The Carpet Makers.—The carpet makers have their own unique problems. In past years, it required vast amounts of capital to enter this field. Now, however, technological changes have and will continue to have a disturbing influence. Due to modern techniques, capital requirements have dropped substantially, and inventory requirements are considerably reduced. Bigelow, for example, has a new process, known as 'Tuft-Dyed' which means that huge inventories of carpets previously dyed prior to manufacture are no longer necessary, as much of this can be done upon receipt of an order after the unit has been manufactured.

Although capital requirements have dropped in this segment of the industry, tremendous sums are still involved, enough to discourage others from entering the already highly competitive field. In addition, a low return on the investment, and increasing competition from other materials add to the industry's woes. To solve the problem, diversification and mergers are in progress.

Bigelow - Sanford, the second largest carpet manufacturer, has also been diversifying into other areas. Past erratic earnings should be helped by relocation of plants to the South, a 40% interest in VBS, a West-German manufacturer in the Common Market, and acquisition of Crestliner Boats in 1960. The past year was hard on boat companies, however, Crestliner was able to continue to show some growth, which has been attributed to the strong dealer set-up established by Bigelow.

Firth Carpet and Mohasco agreed to a merger in August, calling for 1 Mohasco share for each 1½ shares of Firth. A group of stockholders reportedly have been trying to block the merger, as the dissident group considers the terms unattractive in view of the prices of the two stocks.

Mohasco is the world's largest carpet manufacturer. The company's tax loss was exhausted in 1960 and declining sales this year will further reduce earnings for 1961. The long term outlook makes this stock worth holding as a speculation on the success of management to develop new materials and uses. The company recently announced a new acoustical curtain in fabric form which has an interesting potential, but this fact should not obsecure the dull intermediate term outlook. Recent merger developments, however, created increased interest in the stock and may assist earnings via tax losses and broadening of the sales base. END

Black Africa And American Financing

(Continued from page 187)

Until recently, African leaders have been rather busy in getting acquainted with one another and celebrating their newly won freedom. But now they are under increased pressure to meet essential economic needs. Population growth in these new African countries has created acute housing shortages. **Africans from the bush have been crowding into the cities and into the industrial areas looking for work. Unemployment, partly owing to unsettled political conditions, has been on the increase in most areas. Continued flight of European capital and the accelerated departure of European technicians is crippling many enterprises.**

Other Jolts To Confidence

Other aspects of the African scene are disturbing. Threats of confiscation of foreign capital in a couple of African states have created a disquieting impression on the outside world. Even a rumor of intended taking over of private property has precipitated a couple of flights of capital. A few such unpleasant episodes make a deeper impression on international financial circles than do the numerous concessions and facilities some new states have already made to attract foreign capital.

Actually the outside world has been excessively fearful of political upheavals in Africa. Overall, African peoples have shown remarkable calm during the revolutionary changes of recent years. But the injection of the Cold War into the Congo and chaotic intertribal conditions there, have

shaken outside confidence in Africa as a whole.

• Africans wonder why trouble in one corner of Africa should make us pull back everywhere else. After all, Africa is nearly four times as large as the United States. Distances are much greater and economic conditions more varied on that continent than here. But I wonder whether they recognize that the turmoil and lust for power and wealth with its trend toward dictatorship is the great handicap under which they are operating.

• It is mainly for this reason that American private capital has shown hesitation in going into areas where the government is actively engaged in public utilities and in industry. But this trend—socialistic if you will—exists in Africa as it does in most other emerging nations. For want of private capital and experience, the government has had to take the initiative in promoting industrial enterprises.

Foreign Investment Has Neglected Vast Areas

One aspect in the attitude of American and other foreign capital, toward Africa has caused its leaders particular anxiety. In the past, foreign capital has gone mainly into mining, oil, and industrial areas where profit possibilities are highest, passing over Black Africa altogether. Industrial growth in Africa has thus been concentrated in less than 8% of the area of the entire continent. Vast areas with populations of over a hundred million have been virtually ignored. Although modern communications—plane and radio—tend to bring African peoples closer together, as matters stand the possibility exists that the flow of foreign capital again will be directed toward the same mining and industrial areas as before, rather than into the vast subsistence agricultural areas of West and Equatorial Africa.

We can understand this anxiety because human nature, being what it is, money flows into areas of confidence and away from excessive risk.

No assurance can be given that conditions in the poor West African areas will necessarily improve. Standards of living have already been going down in some areas. Unless foreign enterprise and capital is attracted promptly, conditions may get even worse.

In fact, the securing of private capital will, to a great extent from now on, depend on the capacity of the leaders to show progress in improving the living conditions for the masses. It will be a prerequisite for loans sought, for many leaders have been promising their people more than they can deliver, and unless they are able to show some early progress their own position will be in danger.

The Major Need: Mutual Confidence

Overall progress in Africa calls for the establishment of greater mutual confidence than now exists between African leaders and outside investment capital. The giving of tangible aid to the people of the newly-formed countries will depend in a large measure on confidence in the kind of leadership to emerge in the individual states. Whether an individual with a dictator complex will arise to leadership or whether those in control are thinking in terms of benefit to the people and will seek to lift them out of the misery and suffering they now endure, will be a top consideration.

Coming at a time of tension in world finance, outside investment will require more than the illusion of security. It will want assurance of political stability and signs of genuine devotion on the part of the leaders to the cause of their countries as a whole, rather than merely using their position as a step toward gratifying the ambitions of a clique at the top. END

The Construction Industry

(Continued from page 181)

non-residential building field, we come to industrial building. This is also a large category comprising about 22 per cent of the non-residential building market at present. It has exhibited a vigorous growth trend in the last two years. 1960 expenditures rose 32 per cent over 1959, and this year's activity is expected to climb another 7 per cent to a level of approximately $3.5 billion.

• The prospects for industrial plants in 1962 are somewhat mixed. On one hand, the general economic recovery should definitely help this category which is still subject to wide fluctuations according to the tone of overall business conditions. However, mainly because of the recent recession, contract awards for factories have been at a dismally low level this year. Next year, contracts are expected to reverse their decline and rise fairly sharply. But this turnbout in contract letting may occur too late to boost actual dollar expenditures above the 1961 mark.

School, Hospital Construction To Bolster Public Service Segment

► The balance of non-residential building is made up of public service construction — hospitals, schools, public buildings, etc. Together, these categories actually account for about 50 per cent

Selected Natural Resource Stocks May Add Substantially to Forecast Profits

Because massive government spending — coming on top of business recovery — may add inflationary pressures, our analysts have selected for well-timed purchase several promising "natural resource" stocks, for example . . .

A SPECIAL SITUATION — Yielding nearly 5% — well financed and integrated —

This company enjoys aggressive management — low cost operations — and has ample capital for expansion into new fields. Profits increased 8% last year but rose nearly 16% in the first half of 1961. Freedom from long term debt — with cash and government securities of more than $1\frac{1}{2}$ times short term liabilities — give added assurance to liberal dividend. Selling more than 10% under its 1961 high, this issue seems definitey *under-priced.*

A SOUND STOCK IN A RESURGENT PHASE still selling 20% under 1960 top —

This leading low cost producer owns vast reserves of raw materials and well integrated operating facilities. Net per share last year rose 20%, and for second half 1961, demand and profits should be in a rising trend. Current yield is 3.6%, with dividend secured by strong finances. *We believe this issue could advance materially higher.*

OUR MOUNTING PROFIT RECORD

We expect that these attractive issues and other carefully selected recommendations of emerging opportunities, which would be called to your attention as a subscriber, will add to our outstanding profit record.

Our Audit of the stocks in our open position at mid-year showed net appreciation of $937\frac{7}{8}$ points — a gain of 253 points since January 1961 . . . and the profit balance has been growing in the second half.

Such stocks as American Chicle, American Tobacco, Reynolds Tobacco, Int. Tel. & Tel., Sperry Rand and other sound Forecast issues have increased subscribers' gains.

Appraisal of Your Present Securities

To help you to put your investment house in order looking to the period ahead — be sure to include with your subscription a list of the securities you own (12 at a time) for our personal report and advice on — WHICH TO RETAIN — WHICH TO DISPOSE OF — WHICH TO AVERAGE. If you are disturbed regarding any issues in your list, be sure to get expert opinion BEFORE you decide to sell — or to hold.

This extremely valuable consultation service helps subscribers to save thousands of dollars by preventing hasty sale of sound issues while weeding out weaker stocks.

A Well-Rounded Service Geared to 1961 Investment Prospects

Each Week Our Private Bulletin:

►Keeps you a step ahead on the market outlook, changes in defense spending, money rates, taxes and the trend of business at home and abroad . . . Firsthand reports from our capable Washington analyst interpret political and legislative action.

►*Our comments and exclusive indexes* of the 46 industrial stock groups indicate which are rising strongly—those starting to advance—to decline.

►*Our Unique Graph measuring strength vs. weakness in stocks* signalled the 1957 decline, the 1958-59 recovery, the 1960 setback and the advance of the past months.

***Subscribe now* to secure all the advantages of our original research, broad facilities, special sources of information—backed by our organization's 54 years of successful experience! We feel sure you will find our advice most rewarding.**

Special Bonus Offer of Extra Service

MONTHS' SERVICE $75
Plus Two Weeks Free

12 MONTHS' SERVICE $125
Plus One Month Free

Complete Service will start as soon as your remittance reaches us — but annual enrollments will date as officially beginning one month later — semi-annual enrollments will date as starting two weeks later.

MAIL COUPON TODAY FOR SPECIAL BONUS OFFER

THE INVESTMENT AND BUSINESS FORECAST
of The Magazine of Wall Street, 120 Wall Street, New York 5, N. Y.

I enclose ☐ $125 for a year's subscription—plus one month bonus
☐ $ 75 for 6 month's Service plus two weeks bonus

SPECIAL MAIL SERVICE ON BULLETINS

Air Mail: ☐ **$1.00 six months;** ☐ **$2.00 one year in U. S. and Canada.**
Special Delivery: ☐ **$7.80 six months:** ☐ **$15.60 one year.**

☐ **Telegraph me collect your Forecast recommendations . . . When to buy and when to sell . . . when to expand or contract my position.**

Name..........

Address..........

City..........

State..........

Your subscription shall not be assigned at any time without your consent.

List up to 12 of your securities for our initial analytical and advisory report.

of the total non-residential market. Strong demand forces are pushing construction activity upward in most areas here, and 1962 should be a banner year, particularly for hospitals and schools.

As a result of the bumper baby crops of the mid-1940's, a wave of teenage students is beginning to inundate our secondary school systems, creating intensive pressure for expansion of facilities in many parts of the country.

Bolstered by a record level of school bond approvals last year and bond sales earlier this year, school construction expenditures should hit a record high of about $3.7 billion for 1961 as a whole. Another advance is scheduled for 1962.

Hospital building next year will benefit from a surge in contract letting in 1961. In fact, 1961 hospital awards will undoubtedly post the biggest percentage increase over 1960 of any non-residential building type.

Residential Building Has Lost Steam

► **Economically, housing is the most important sector of construction. The dollar valuation of all residential building construction now accounts for about 40% of all new construction.**

• Housing is having only a mediocre year in 1961. It appears that non-farm housing starts will amount to about 1,300,000, slightly above the 1960 level but below the robust pace of 1959.

In the past few years, it has become increasingly obvious that housing demand is no longer as intense as it was during the earlier postwar period. Since the net increase in dwelling units from 1950 to 1960 was considerably more than growth in households, the backlog of need left over from the hiatus in home building during the depression and World War II has been gradually worked down. As a result, the vacancy rate has tended to move up, slowly at first but accelerating more recently.

Moreover, easy money conditions no longer have the same stimulating effect on home building. We have had such conditions for over a year without producing a housing "boom."

All this does not mean that the nation's housing is overbuilt. Our rate of replacement is still extremely low, and millions of substandard dwellings are still occupied. But we certainly are better housed than we were. Some of the pressure is off, at least until the next big population surge due in the mid-1960's.

► It can be fairly easily demonstrated that the basic annual demand for housing now is about 1,300,000 units: about 900,000 for population growth, 300,000 for replacement, and 100,000 a year merely to keep the vacancy rate at the same level as our total housing stock grows. The replacement rate could be considerably higher, and it is starting to rise. For these reasons, it seems unlikely that housing starts could fall much below the 1961 level.

On the other hand, there are reasons why they should rise a little. The more liberal financing terms for FHA-assisted housing resulting from the 1961 Housing Bill should still have some stimulating effect. The cumbersome urban renewal program finally seems to be picking up steam. In addition, personal incomes will be rising more sharply with the overall economic upswing putting more people in a house-buying mood.

• For these reasons, then, we would expect some improvement in housing starts for 1962.

• Apartments should account for about a quarter of total housing starts next year. Although there are potent long-term forces which may lift this proportion even higher later in the decade, 25 per cent appears to be the top limit for the immediate future.

Apartments: Overbuilt on West Coast But Vacancy Rate Still Low in New York

In some cities, particularly on the West Coast, apartment construction may decline quite drastically next year. The speculative fervor has resulted in a construction rate greater than even the burgeoning population growth of the West can support. **Actually, the warning signs have been flying for some time now, in the form of sharply increased rental vacancy rates in the West and unusually generous inducements to prospective tenants.**

In New York, however, this does not apply. The vacancy rate is still quite low here, and judging from current plans and contract awards, apartment construction may remain high in the year ahead.

The total dollar volume of residential building in 1962 can be expected to rise a little more than the anticipated gain in housing starts. Construction costs, though relatively stable for the last six months or so, will push up again next year. Also, it should be a very good year for non-housekeeping residential construction—hotels and motels, etc. Again, expenditures on housing additions and alterations will be in a rising trend thanks partly to the liberalization of the FHA home improvement loan plan.

► Mention should also be made of the heavy engineering sector of construction. About half of this is comprised of highway building, which, with the Federal-aid program on an even keel again, will score a modest advance in 1962. Other types of heavy engineering construction such as electric utility systems, water and sewer systems, and some military construction should move up a little faster.

Role of Cycles Will Be Greatly Diminished in Future

The construction industry appears headed for a good year in 1962. If the economy in general, continues to expand, construction expenditures could approach $62 billion, or about 7% ahead of 1961.

This may not strike one as an immense advance, but it will mean reasonable prosperity for many firms in the industry. In addition, if the forecast is borne out, it will mean another nail driven in the coffin of the "18-year" cycle theory. Not that construction is immune to a collapse, but it does seem highly resistant. Except for some marginal areas, like Western apartment construction, there is little evidence of building very far out in front of the market.

All in all, the chances for further growth for building are high, always assuming that business in general gives a good account of itself. END

QUALITY OF PRODUCT IS ESSENTIAL TO CONTINUING SUCCESS

Under this famous sign the pioneers of tobacco research now celebrate a

GOLDEN ANNIVERSARY

Tobacco research began in 1911. The pioneer was The American Tobacco Company. Today in Richmond, Virginia, our large, modern research center testifies to the fact that The American Tobacco Company is the leader in this field—the pioneer in a dramatic new world of tobacco research.

American Tobacco's research program now embraces every conceivable facet of the industry from growing the tobacco leaf to packaging the finished cigarette. Today great emphasis is placed on fundamental research into the nature of tobacco and tobacco smoke. Tremendous progress has been made. And as the program enters its second half century, the importance of progressive research policies is being stressed more than ever before. For research is essential to quality—and at American Tobacco, "quality of product is *essential* to continuing success."

The American Tobacco Company

FIRST IN CIGARETTE RESEARCH